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January 8, 1979
Vol. 59 No. 1

The CPA Letter

A Semimonthly News Report Published by the AICPA

FASB Issues Six Documents

The Financial Accounting Standards Board has ended 1978 with a burst of activity guaranteed to supply the profession with a variety of reading material during the pretax season hiatus. The publications include a statement on standards, an interpretation and four exposure drafts. They are as follows:

- ☐ *Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report* (FAS no. 24, amending FAS no. 14). The statement eliminates the need to disclose segment information, in specified separate financial statements, if it is not significant to consolidated or combined statements that are accompanied by a complete set of separate parent or investee company financial statements.
- ☐ *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans* (Interpretation no. 28). It specifies, among other things, that compensation should be measured at the end of each period as the amount by which the quoted market value of the shares covered by a grant exceeds the option price or value specified under the plan and charged to expense over the periods the employee performs the related services.
- ☐ *Capitalization of Interest Cost* (exposure draft). The proposed statement would require companies to capitalize interest cost as part of the cost of acquiring certain kinds of assets that require extended construction or development to prepare them for their intended use. Due date for comments is March 31.
- ☐ *Determining Contingent Rentals* (exposure draft). The proposal would define contingent rentals as the increases or decreases in lease payments that result from changes in the factors on which lease payments are based after the inception of the lease. Due date for comments is February 26.
- ☐ *Accounting for Sales with Leasebacks* (exposure draft). If adopted, the statement would require the seller to recognize some profit or loss in either of two specified limited circumstances. Comments are due by February 28.
- ☐ *Financial Reporting and Changing Prices* (exposure draft). As proposed, certain large, publicly held enterprises would be required to disclose supplemental information about the effects of changing prices. Each enterprise to which the statement would apply should present information on income from continuing operations either on a historical cost/constant dollars (general purchasing power) basis or on a current cost basis. If the current cost basis is used, additional specified information would also be presented. The due date for comments is May 1. (Copies available after January 10.)

In another matter, a study sponsored by the FASB indicates that its Statement no. 8, *Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements*, has had an impact on the manner in which companies manage their exposure to changes in foreign currency exchange rates. However, the study was unable to determine whether the increased resources devoted to exchange risk management have generated a significant increase or decrease in the after-tax cash flows of multinational companies.

Up to five copies of the exposure drafts are free from the FASB until the respective due dates. For prices on the other publications, contact the Publications Department, FASB, High Ridge Park, Stamford, Conn. 06905.

First International Audit Guideline to Be Exposed

The international auditing practices committee (IAPC) of the International Federation of Accountants has approved for exposure a draft of its first international auditing guideline: "Objective and Scope of the Audit of Financial Statements."

The draft describes the overall objective and scope of the audit of financial statements of an entity by an independent auditor. It states that management has the responsibility for the preparation of financial statements and for adequate disclosure. The auditor must establish to his satisfaction that the underlying accounting records are reliable and adequate and that the financial information is properly communicated. Means for determining these three elements are cited.

Copies of the guideline will be available from the AICPA order department about February 1. Comments should be addressed to Thomas Kelley at the Institute and are due by April 30.

IAPC has also added two new projects to its agenda:

- ☐ Reliance on Other Auditors.
- ☐ Planning and Supervision of an Audit.

Graders Needed for CPA Examination

CPAs, who have time available during the two-month period following the CPA examination dates, may wish to assist in the grading of the uniform CPA examination at the AICPA offices in New York.

Graders are required to provide a minimum of three seven-hour days each week, which may include Saturdays, beginning about three weeks after the examination is given. The starting hourly rate is commensurate with that paid in New York City for comparable services, with an opportunity for adjustments in future grading periods.

Interested CPAs should contact Mitchell Rothkopf at the AICPA's New York office for further information.

AICPA PAC Reaffirms Policy on Contributions

At a recent meeting, the AICPA's effective legislation committee, which is the Institute's political-action committee, reaffirmed a policy of contributing, in modest amounts, only to the campaigns of incumbent members of the U.S. Senate and the House of Representatives serving on committees or in positions that could affect the accounting profession.

This policy has the concurrence of the Institute's board of directors as confirmed at the December 8-9 meeting.

SOP on Municipal Bond Funds Approved

The Institute's accounting standards division has approved a statement of position dealing with accounting for municipal bond funds. SOP 79-1, *Accounting for Municipal Bond Funds*, was prepared for review by the FASB.

The statement proposes to amend the AICPA Industry Audit Guide, *Audits of Investment Companies*, to include the development of the municipal bond fund made possible by the Tax Reform Act of 1976. SOP 79-1 presents the division's views on accounting and reporting matters and other considerations relating to municipal bond funds.

Copies of the statement will be available later this month from the AICPA order department.

Three Auditing Interpretations Issued

The staff of the Institute's auditing standards division has prepared the following three interpretations:

- ☐ AU 9318, *Analytical Review Procedures* — This interpretation makes clear that SAS No. 23, *Analytical Review Procedures*, does not modify the guidance provided in SAS No. 19, *Client Representations*, that management representations are not a substitute for auditing procedures.
- ☐ AU 9505, *Reports on Comparative Financial Statements* — This interpretation explains that the reporting requirements of SAS No. 15, paragraph 6, are inconsistent with the intentions of FASB Statement No. 21 which retroactively suspended earnings per share and segment information disclosure requirements for nonpublic entities. Accordingly, the auditor is justified in departing from SAS No. 15 and need not refer in his unqualified opinion to an earlier modified opinion caused by inadequate disclosure of such items.
- ☐ AU 9509, *Reports on Audited Financial Statements* — This interpretation clarifies the auditor's responsibility to determine that supplementary consolidating information is suitably identified in the financial statements or separate schedules. It also states that, when consolidated financial statements include supplementary consolidating information, the standard report should include an additional explanatory paragraph which clearly establishes the auditor's position regarding the supplementary information.

The text of the interpretations will appear in a forthcoming issue of the *Journal of Accountancy*.

Senator Praises Profession's "Fine Record"

Senator John G. Tower (R-Texas) praised the accounting profession's "fine record of progress" in its efforts to regulate itself. Speaking before more than 500 participants in the AICPA's national conference on banking, held in Washington, D.C., late last month, the senator said he "fully agreed" with the SEC's conclusion in its report to Congress that there was "sufficient evidence of progress" in the AICPA program "to support the view that federal legislation at this time would not be in the public interest."

Other speakers included H. Joe Selby, deputy comptroller of the currency, and Frederick Dean, Jr., chairman and president of the Bank of Virginia Company. Both speakers called for increased deregulation of the banking industry.

The two-day conference also focused on various accounting and auditing issues facing banks and bank holding companies. Sessions included SEC reporting, community banking matters and the Foreign Corrupt Practices Act.

NOTICE OF AICPA PUBLIC MEETING

Accounting and Review Services

An open meeting of the AICPA's accounting and review services committee will be held in Los Angeles on January 25-26 at a site to be selected. Meetings are from 9:00 a.m. to 5:00 p.m.

January 25 (all day)

Reporting on Financial Statements of Two or More Periods. (Discussion of preliminary draft.)

January 26

(Agenda items not yet determined.)

The next scheduled meeting of the committee is in New York on February 28-March 1.

Additional information will be reported by the meetings information telephone service. The number is 212/575-5694.

Washington Briefs

The Securities and Exchange Commission is adopting rules establishing uniform requirements for financial accounting and reporting practices of oil and gas producers that follow the full cost method of accounting. Various technical amendments to Accounting Series Release 253 were also adopted.

In another matter, the SEC also adopted certain amendments to the "description of property" item of Regulation S-K. The amendments standardize and improve the disclosure requirements relating to oil and gas reserve operations.

In Staff Accounting Bulletin no. 28, the SEC presents the staff's views on the disclosure and accounting which is to be done by electric utility companies. Three specific areas are addressed: financing through the use of construction intermediaries; interests in jointly-owned electric utility plants; and long-term contracts to purchase power.

In Rel. no. 34-15384, the SEC has issued final rules on shareholder communications, shareholder participation in the corporate electoral process and corporate governance. The rules contain amendments designed to give shareholders more data on the structure, composition and functions of the issuers' boards of directors.

The 1978 edition of Package X, Information Copies of Federal Income Tax Forms, is now available. The package includes several forms that have been revised to reflect the Revenue Act of 1978. Copies of the package and IRS publication 1045, *Information for Preparers of Federal Tax Returns*, may be obtained from local IRS district offices.

The Interstate Commerce Commission has proposed waiving certain accounting and reporting requirements for motor carriers. The proposal would ease the burden on carriers and reduce the paperwork burden on the commission.

The Labor Department has issued proposed regulations governing the circumstances in which it is permissible for pension plans to suspend payment of benefits to retirees who return to work. The proposal would require the plan to notify a retiree during the first month in which it withheld payments of the reason for the suspension, the authority for the suspension and the method of review. Comments are due by March 6, 1979. For further information, see the December 19 *Federal Register*.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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The CPA Letter

A Semimonthly News Report Published by the AICPA

FASB Moves Ahead on Inflation Accounting

With the release of its exposure draft, *Financial Reporting and Changing Prices* (see January 8 Letter), the Financial Accounting Standards Board continues to move forward in its study of concerns on the adequacy of financial information based on historical cost data. At a press conference earlier this month, Donald J. Kirk, board chairman, said that the board's approach is deliberately flexible to encourage experimentation. He stressed that the information called for is supplemental, and wouldn't affect the basic financial statements.

Mr. Kirk also spoke of the implications of the board's proposals in light of the Securities and Exchange Commission's 1976 ruling mandating the reporting of replacement-cost data for certain major companies (Accounting Series Release no. 190). He added that he hoped the FASB and the SEC could "reconcile the differences" between the two statements "through a meeting of the minds."

The board, he noted, was also working on a second phase of the project aimed at identifying measurement problems unique to specific industries. Task forces are being appointed to study the areas of banking, mining, forestry products, real estate, insurance and oil and gas.

In a related matter, the AICPA has established a task force to study auditor involvement with required supplemental information as called for in the FASB draft. The group is charged with determining the nature of the auditor's involvement with financial disclosure outside the financial statements. The task force is also to consider the specific guidance appropriate for the auditor's involvement with regard to supplemental information on the impact of inflation. Chairing the group is James J. Leisenring, Bristol, Leisenring & Co., Battle Creek, Michigan.

Auditing Standards Advisory Council Appointed

Following the recommendations of the special committee to study the structure of the auditing standards executive committee, as approved by the AICPA's council last May (see May 22 Letter), the Institute has appointed members to the newly established auditing standards advisory council. The special committee's report urged the establishment of an advisory council to bring to the auditing standards board's attention problems calling for new standards, revisions or interpretations of previous statements, and to review the board's agenda and offer guidance on the priorities implicit in the agenda. The council is also to report at least once a year on the board's work and the extent to which it has fulfilled its charge.

Chairing the council is Alan B. Levenson, Esq., Washington, D.C. Other members include: C. Reed Parker, Chicago; Professor Walter Kell, CPA, Ann Arbor, Michigan; Leonard M. Savoie, CPA, Buchanan, Michigan; Dale Y. Freed, New York; Donald L. Scantlebury, CPA, Washington, D.C.; and Robert Chapman, Whittier, California.

Also, Robert L. Richmond, CPA, Altamonte Springs, California; Richard A. Nest, CPA, New York; Ivan Bull, CPA, Davenport, Iowa; Edward Silverman, CPA, Chicago; Michael Walker, CPA, New York; Emmett Graham, CPA, Baltimore; and John E. Stoddard, New York.

Accounting and Review Services Committee Sets Task Forces

The Institute's accounting and review services committee has established the following new task forces:

- ☐ *Task Force on Other Accounting Services* — This group will consider the need for guidance for the performance of accounting services other than the compilation or review of financial statements.
- ☐ *Task Force on Communication With Users When the Accountant Is Not Independent* — This group is to consider an appropriate means of communication with users of financial statements or information of a nonpublic entity when a nonindependent accountant is involved with such statements or other information.
- ☐ *Clarification of Independence Interpretations Task Force* — This group will review existing ethical interpretations regarding independence and make recommendations for clarifying their application in the context of an engagement in connection with unaudited financial statements or other unaudited financial information of a nonpublic entity.
- ☐ *Task Force on Subsequent Discovery of Facts Existing at the Date of Compilation or Review Report* — This group is charged with developing guidance for the accountant who, subsequent to the date of the report on the financial statements he has reviewed or compiled, becomes aware that facts may have existed at that date which might have affected the report.
- ☐ *Special Reports Task Force* — This group will consider the need for guidance on the procedures and standards of reporting when an accountant is engaged to compile or review specified elements of a financial statement or issue a review report regarding compliance with aspects of contractual agreements or regulatory requirements.

For further information, contact Marilyn Zulinski at the Institute.

Recent FASB Actions

At a meeting earlier this month, the Financial Accounting Standards Board considered several recommendations affecting defined benefit pension plans. Specifically, the board discussed staff recommendations focusing on whether in plan financial statements the data regarding accumulated benefits might be presented as of a date different from that for which information regarding net assets available is presented. Also considered was what data, if any, regarding changes in accumulated benefits should be presented in plan financial statements. A statement of financial accounting standards or revised exposure draft may be issued on this matter.

Also, the board held a meeting with 13 respondents on evaluation of FASB standards. The meeting focused on proposed various alternatives to certain provisions of FASB Statement no. 8, *Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements*.

In a related matter, the FASB has issued a second research study (see January 8 Letter) on the effects of FASB Statement no. 8. The study, *An Empirical Investigation of the Effects of Financial Accounting Statement no. 8 on Security Return Behavior*, relates to the reactions of stock market investors to the issuance and implementation of the statement, and concludes that the statement has had no significant impact on the market prices of multinational companies.

For further information on this study, contact the FASB, Publications Department, High Ridge Park, Stamford, Conn. 06905.

**"A Year of
Challenge"
Ahead for CPAs**

1979 will be a "year of challenge and change" for the accounting profession, according to Harold M. Williams, chairman of the Securities and Exchange Commission. Speaking before more than 500 participants in the AICPA's Sixth National Conference on Current SEC Developments, held earlier this month, Williams said that the nation's accountants have made "dramatic strides" toward effective self-regulation, but much still remains to be done.

Focusing on the SEC practice section of the AICPA's division for firms, he said its establishment "has created a nucleus which has the potential to become a comprehensive self-regulatory structure." Key issues remaining to be resolved, Williams added, include "the credibility and value of the peer review process" and the role of the SEC in the process.

The SEC chairman also said that the profession faces four other "challenges" this year: the disclosure process and the needs of its users; compliance with the accounting provisions of the Foreign Corrupt Practices Act; the establishment of audit committees and whether they function effectively; and whether the scope of management advisory services should be curtailed.

For further information, see the February *Journal of Accountancy*.

**Tax Division
Issues Statement
on Sec. 274(2)
of IRC**

The AICPA's federal tax division has issued the following statement in response to a number of inquiries:

"The corporate tax return forms for 1978 request the following information: 'Enter total amount claimed on Form 1120 for entertainment, entertainment facilities, gifts, travel, and conventions of the type for which substantiation is required under Section 274(d).' Similar information was requested on the 1977 tax form. That information was to cover the entire year, but taxpayers were notified very late in the year. The form's language, moreover, was very confusing. The federal tax division of the Institute, among others, objected to the request. In addition to exploring the late notification and wording problems, we tried to discuss with the IRS its objectives in making the request, and suggested alternatives. The IRS announced that the request need not be observed for 1977, but it intended to require the information in 1978. That conclusion was confirmed with the inclusion of the question on the 1978 Form 1120.

"The division still believes that the information requested is not the best way for the IRS to accomplish its audit objectives. Nevertheless, we call to the attention of AICPA members that statements on *Responsibilities in Tax Practice* nos. 3 and 5 (regarding answering questions and use of estimates) apply to this 1978 information request, as they do to other questions on tax forms.

"In that connection, the division points out that every reasonable effort should be made to use exact amounts in arriving at the total to be entered on the return and to maintain appropriate records for that purpose. It may not be feasible, at times, to do so and estimates may have to be used. Where it is necessary to use estimates in arriving at the total, disclosure should be made on the return if the estimated amounts are significant to the total. Such disclosures may be made by a notation such as: '\$_____ (including \$_____ estimated).' If the estimated amounts are not significant to the total, no disclosures need be made. On the other hand, if the estimates are so extensive that it would be misleading to combine them with the available exact figures, the use of a round amount would be preferable. Such response might read: '\$_____ (estimated).'

"The division also calls attention to Instruction Y in 1978 Form 1120. Despite the use of the word 'claimed' in the question itself, the instruction makes it clear that the total amount paid or accrued during the year is what the IRS is asking for, regardless of when such amounts are reflected as deductions."

Six AICPA Members Suspended

On December 6, 1978, the memberships of the following AICPA members were indefinitely suspended under the automatic disciplinary provisions of the Institute's bylaws:

- Thomas E. Bazley, Jacksonville Beach, Florida
- Harold E. Savage, Satellite Beach, Florida
- John E. Williams, Fort Myers, Florida

The suspensions were coincident with the suspension of their CPA certificates by the Florida State Board of Accountancy for failing to comply with the state's continuing education requirements. Suspended members who comply with the requirements of the Florida State Board and whose certificates are reinstated, will be reinstated to membership in the AICPA.

Also, the memberships of the following AICPA members were suspended for terms coincident with the suspensions of their certificates by the New Jersey State Board of Certified Public Accountants on their conviction in state courts of the crimes indicated:

- Martin J. Krieger, Highland Park, New Jersey — from April 13, 1978 to April 12, 1980, for his conviction on his plea of guilty for obtaining money under false pretenses.
- Robert J. Ojeda, Morristown, New Jersey — from June 24, 1977 to June 23, 1979, for his conviction for unlawfully receiving medicaid payments.

At a meeting of a hearing panel of Regional Trial Board XI in New York City on November 9, 1978, the ethics charging authority presented a case against Joseph Sagal of Brooklyn, New York. The member was charged with violating the acts discreditable rule of the Institute's code of professional ethics following his conviction, on a plea of guilty, of supplementing the salary of a government employee — a misdemeanor under the United States Code.

The hearing panel found Mr. Sagal guilty as charged and, after considering mitigating factors submitted in his behalf, decided that his membership in the AICPA should be suspended for six months.

The member did not request a review of the panel's decision and it therefore became effective on December 9, 1978.

AICPA Assists Two Doctoral Candidates

Two doctoral candidates will receive grants this year under the AICPA's Grants-In-Aid program for assistance with their dissertations. Criteria for selection include relevance of the topic to the principal concerns of public accounting, adequacy and thoroughness of methodology, and academic achievement of the applicant. The following are the recipients and their subjects:

- ☐ Robert W. Parry, Lehigh University, \$5,600 — "An Empirical Examination of the Effects of Applying Statement of Financial Accounting Standard no. 13 to the Financial Statements of a Sample of Pennsylvania Cities."
- ☐ P. David Shields, University of Michigan, \$6,300 — "Information Utilization Characteristics of Bankers and Attorneys in CPA Firm Recommendation for Small Clients."

Two changes have been inaugurated in the program this year: the amount available in the fund is \$37,500, up from \$25,500; and applications will be considered and selections made in the fall and spring of each academic year.

Postage Reminder on Letter

Members who wish to continue receiving the Letter by first-class mail, or those who wish to receive this service should send their checks for five dollars to the AICPA's circulation department prior to February 28. (This charge is not applicable to those members who have a "package" postage arrangement with the Institute.) The charge will cover the period from March 1, 1979 through February 29, 1980.

NOTICE OF AICPA PUBLIC MEETINGS

Professional Ethics

An open meeting of the AICPA's professional ethics executive committee will be held in Dallas on February 7 at the Sheraton Dallas Hotel from 9:00 a.m. to 5:00 p.m.

Agenda Items

The following drafts will be considered for publication:

- ☐ Interpretations — Effect of Family Relationships on Independence (modification) Engagements Obtained Through Efforts of Third Parties (proposed).
- ☐ Ethics Rulings (proposed) — Employment by Non-CPA Firm; Association as an Agent; Course Instructor; Newsletter; Letterhead: Lawyer-CPA; Member Interviewed by Press; Computer Service Franchise; Referral; Data Processing Fees Paid to Other CPAs; Announcement of Member's Withdrawal From Firm; and Bank Director.

The next scheduled meeting of the committee is in New York on May 22.

Federal Taxation

An open meeting of the federal tax division executive committee will be held in New Orleans at the Royal Orleans Hotel on February 19-21, starting at 1:00 p.m. on February 19th; 9:00 a.m. on the 20th and 21st. The agenda follows:

February 19 — p.m.

- ☐ Report on Taxation of Fringe Benefits. (Discussion of preliminary draft.)
- ☐ Report on Impact of Possible Termination of Deferred U.S. Tax on Controlled Foreign Subsidiaries. (Report of Task Force.)
- ☐ Review of Activities Regarding Carryover Basis. (Discussion.)
- ☐ Recommendations on Employer-Independent Contractor Issue. (Report of Task Force.)

February 20 — a.m.

- ☐ Review of Legislative Recommendations for 1979 "Recommended Tax Law Changes." (Discussion of Preliminary Draft.)

February 20 — p.m.

- ☐ Review of Legislative Recommendations for 1979 "Recommended Tax Law Changes." (continued.)
- ☐ Review of Legislative Recommendations for Technical Corrections to the Revenue Act of 1978. (Discussion of Preliminary Draft.)
- ☐ Review of Priority Status of Regulation Projects. (Discussion.)
- ☐ Recommendations on Comments on Regulations Projects Prior to Issuance in Proposed Form. (Report of Task Force.)

February 21 — a.m.

- ☐ Review of Items for Possible Meeting with IRS Assistant Commissioner—Technical. (Discussion.)
- ☐ Report on Position on Real Wage Insurance Proposal. (Preliminary discussion.)
- ☐ Report on Division Position on Withholding from Dividends and Interest Income. (Preliminary discussion.)
- ☐ Report on Meeting of Commissioners Advisory Group. (Discussion.)
- ☐ Rules 201 & 204 of Code of Ethics. (Discussion.)
- ☐ Preparer Penalty Provisions. (Discussion.)

The next scheduled meeting of the committee is May 20 and 23 in Washington, D.C.

The changes from these notices will be reported by the meetings information telephone service. The number is 212/575-5694.

Washington Briefs

The IRS has proposed an amendment to the estate tax regulations on the deductibility of administration expenses by an estate. The proposed amendment, in LR-164-74, would clarify the regulations on the deduction of attorneys' fees incurred by beneficiaries. Comments are due by February 27.

In Information Release 2070, the IRS has issued temporary and proposed regulations dealing with the Foreign Earned Income Act of 1978. Under the temporary rules, employees must estimate their 1979 deduction under section 913 to obtain reduced withholding on the basis of corresponding deductions. Comments are due by March 16. A detailed tax guide for U.S. citizens abroad is also expected by spring.

The Council on Wage and Price Stability has published, in the December 26 *Federal Register*, final procedural rules implementing compliance standards for the voluntary anti-inflation program. The rules request that companies with net sales or revenues of more than \$250 million report to the COWPS by February 15 on their corporate "organizational structure for purposes of compliance."

The Federal Reserve Board has issued proposed regulations for consumer protection under the Electronic Fund Transfer Act. The rules deal with sections of the act limiting a consumer's liability for unauthorized use of an EFT card and restricting the unsolicited issuance of such cards. For further information, see the December 29 *Federal Register*.

The Justice Department has been reported to be proposing a program to prohibit a merger that would result in a corporation with more than \$2 billion in sales or assets, or \$1 billion if it involves a company with more than a 20 percent share of the market. This subject is also expected to receive a high priority from Senator Edward Kennedy (D-Mass.), new chairman of the Senate Judiciary Committee.

The SEC recently announced that large institutional investors controlling \$100 million or more in stock must file reports on their holdings quarterly, rather than annually. These investors must report the names, types and quantities of stock held, and whether the institution has voting authority for the shares.

The SEC, in Rel. 33-6009, has deferred until 1980 quarterly reporting requirements for life insurance companies whose shares are not actively traded.

The CPA Letter

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The CPA Letter

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FASB To Reexamine Foreign Currency Transactions

The Financial Accounting Standards Board will consider several proposals which are expected to result in changes to its Statement no. 8, *Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements*. Among the possible changes to be considered by the board are:

- ☐ Expansion or change of disclosure requirements.
- ☐ Presentation of translation gains and losses (such as an extraordinary item).
- ☐ Translation of inventory at current rate.
- ☐ Deferral of gains and losses in a separate statement apart from the income statement.
- ☐ Comprehensive adoption of the current rate method.

Staff members, with the aid of a task force, will prepare specific recommendations as to the timing and scope of the project.

Terming accounting for foreign currency transactions "a contentious, difficult issue," FASB Chairman Donald J. Kirk said at the open meeting on January 31, "the concerns expressed by our constituents require rapid and immediate consideration by the board."

Also, the FASB has adopted Interpretation no. 29, *Reporting Tax Benefits Realized on Disposition of Investments in Certain Subsidiaries and Other Investees*. It requires tax benefits realized on disposition of investments in certain subsidiaries and other investees, relating to the difference between the accounting and tax basis of investment, to be classified the same as that accorded the gain or loss on disposition of investment. The Interpretation clarifies APB Opinion no. 23, *Accounting for Income Taxes — Special Areas*, and APB Opinion no. 24, *Accounting for Income Taxes — Investments in Common Stocks Accounted for by the Equity Method (Other Than the Subsidiaries in Corporate Joint Ventures)*. The interpretation shall be effective for the covered dispositions occurring after March 31, 1979.

Committee on Small Firms Seeks Views

At its first meeting, in January, the new special committee on small and medium-sized firms heard three presentations relating to the future viability and prospects of the smaller and medium-sized accounting firm.

Following the meeting, Chairman Samuel A. Derieux urged that all interested parties submit to the committee their views on identifying the factors that tend to place the smaller CPA firm at a competitive disadvantage — especially as they relate to practices by banks, underwriters, investment bankers and others who influence the appointment of independent auditors.

"This information is essential," said Mr. Derieux, "to provide our committee with examples of current and past experiences, so that we can move ahead in our attempt to resolve these issues, without duplicating the work done by other committees."

The next meeting of the committee is scheduled for February 26. Under its mandate from council, the committee will report its progress prior to the annual meeting in New Orleans in October 1979, with a final report to be issued the following year.

PCPS Approves Peer Review Manual

The private companies practice section peer review committee, at a meeting last month, approved its *Peer Review Manual* for publication. The manual will be available for the first time at the PCPS national conference (see below) and will be sent to all PCPS members at that time. Copies will be available to others, at a price to be determined, from the Institute's order department after May 2.

Included in the manual are the following basic elements:

- ☐ Standards for performing and reporting on quality control compliance reviews under the auspices of the private companies practice section.
- ☐ Administrative procedures of the peer review committee.
- ☐ Membership requirements for joining the PCPS.

PCPS Sets 1979 National Conference

The private companies practice section of the Institute's division for CPA firms has set April 30-May 2 for its first national PCPS conference. To be held at the MGM Grand Hotel in Reno, the conference will focus on the latest technical developments affecting private companies and the peer review program. An optional third day will offer two courses under the auspices of the continuing professional education division.

Speakers include Samuel A. Derieux of Richmond, Virginia, chairman of the newly formed special committee on small and medium-sized firms; AICPA Vice Chairman William Gregory of Tacoma, Washington; and Wallace Olson, Institute president.

The registration fee for PCPS members and for prospective members is \$95, with an additional \$35 charge for optional CPE courses on May 2 which are available only to conference participants. They are

- ☐ Developing Your Quality Control Document.
- ☐ A Reviewer's Guide to Quality Control Compliance Review (see below).

For further information, contact the AICPA meetings department.

In another matter, the PCPS executive committee has appointed the following seven task forces:

- ☐ Task Force for Liaison with Peer Review Committee.
- ☐ Task Force to Monitor the *Practicing CPA*.
- ☐ Task Force to Develop Plan for Effective Liaison with State Societies.
- ☐ Annual Conference Task Force.
- ☐ Charter Revision Task Force.
- ☐ Task Force to Study PCPS Services for Firms Who Have SEC Clients and have Joined only the PCPS.
- ☐ Task Force to Develop Plan for Systematic Monitoring of Technical Issues.

CPE Prepares Course to Train Peer Reviewers

The AICPA's continuing professional education division has developed a course to train peer reviewers for both the SEC practice section and the private companies practice section for the division for CPA firms. The course will be offered by the division this spring through sponsoring state societies.

Entitled *A Reviewer's Guide to Quality Control Compliance Review*, the course, thus far, has been scheduled by 19 states. Also, this course will be one of the optional programs for participants in the PCPS conference. Those planning to serve as reviewers on peer reviews are urged to contact their state societies or Henry Smith, of the CPE division, for further information.

Update on CWPS

As previously reported, the Council on Wage and Price Stability has issued several proposals and guides since the plan was announced last fall. Practitioners wishing to obtain copies of source documents may contact the CWPS directly, 726 Jackson Place, N.W., Washington, D.C. 20506, 202/456-6757, or consult the relevant *Federal Registers*. Documents include the following:

- ☐ *Noninflationary Pay and Price Behavior — Voluntary Standards*, adopted and effective December 28, 1978 (see the December 28 *Federal Register*, not December 26 as listed in error in the January 22 *Letter*).
- ☐ *Anti-Inflation Measures Affecting Federal Contracts Policy Statement*, adopted on December 27 (see the January 4 *Federal Register*).
- ☐ *Interim Final Procedural Rules Relating to Voluntary Pay-Price Standards*, effective January 4 (see *Federal Register* of that date).
- ☐ *Supplemental Questions and Answers and Implementation Guide* (see January 25 *Federal Register*).
- ☐ *Organization, Location of Offices, and Confidential Information* (see January 25 *Federal Register*).

Also, the AICPA has established a special task force on wage and price standards to assist the CWPS in developing publications which will be useful to practitioners in complying with the President's program. For further information, contact Joseph F. Moraglio, director of the Institute's federal government division in Washington, D.C. (202/872-8190).

Doctoral Fellowships Awarded to Minority Faculty

Five minority faculty members have been accepted for doctoral fellowships in accounting for the 1978-79 academic year in a program jointly sponsored by the AICPA and the American Accounting Association. A total of \$117,500 has been granted to the fellowship recipients and to their schools to provide temporary teaching replacements in their absence. The recipients are

Brenda D. Birkett of Southern University, Baton Rouge, La., attending Louisiana State University; Florida A&M University (Tallahassee) teachers Sandra T. Drumming, attending the University of Wisconsin (Madison), and James Bryant, Jr., attending Texas A&M University (College Station). Also, Helen A. Kennedy of Grambling (Louisiana) State University, attending Oklahoma State University (Stillwater); and Johnnie A. Mapp of Paine College (Augusta, Georgia), attending the University of Georgia (Athens).

The program is aimed at helping the minority accounting faculty of developing institutions to pursue doctoral study and provide their schools with temporary replacements.

In a related matter, the Institute's minority recruitment and equal opportunity committee recently announced the award of 78 scholarships to minority students for the second half of the 1978-79 academic year. The students, from 55 colleges and universities, receive scholarships totaling \$29,750.

Referendum on Ethics Changes Mailed

A referendum on two proposed changes in the AICPA Code of Professional Ethics, as approved by council at its meeting last fall (see November 13 *Letter*), has been mailed to the AICPA membership.

The first proposal calls for the repeal of Rule 401 — Encroachment. The second proposes repealing that portion of Rule 502 — Advertising and Other Forms of Solicitation — relating to direct uninvited solicitation. The booklet accompanying the ballot contains a background statement, pro and con arguments applying to the proposals, the board of directors' message to council prior to the fall meeting and various legal opinions.

To pass, the amendments must be approved by two-thirds of the members voting. Ballots must be received by March 31, 1979, to be valid and counted.

**Trial Board
Finds Three
AICPA Members
Guilty**

On June 22, 1978, a hearing panel of the Joint Trial Board Division's Regional Trial Board XI voted to suspend Maurice Rosen of New York City from membership in the AICPA for two years and to require that he complete 40 hours of continuing professional education during each year of the suspension for violating Rule 2.02 of the Institute's code of ethics.

The hearing panel found that the member has rendered unqualified opinions on financial statements of a client in disregard of generally accepted auditing standards and was thus materially negligent in the conduct of his examination and report thereon and failed to acquire sufficient information to warrant the expression of an opinion.

Mr. Rosen, who was present with counsel at the hearing, requested a review of the hearing panel's decision by the National Review Board. An ad hoc committee of the board was convened on December 21, 1978, to consider the request. Based upon its consideration of the case, briefs of opposing parties and related material, the committee denied the request. The decision of the Regional Trial Board hearing panel therefore became effective on December 21, 1978.

On August 15, 1978, a hearing panel of Regional Trial Board XI voted to suspend Charles R. Harary of New York City from membership in the AICPA for two years for committing an act discreditable to the profession as charged by the AICPA division of professional ethics.

The division charged that the member requested and received money from a client to make a payment to an IRS agent knowing that the client believed the full amount would be given to the agent when, in fact, the member kept part of the money for himself. The member admitted to the facts alleged but said he was entrapped by the IRS agent, that the money he retained was payment for services rendered and cited the fact that he had never been convicted of any crime in connection with the event (see *The CPA*, July-August 1972).

Mr. Harary, who was present with counsel at the hearing, requested a review of the hearing panel's decision by the National Review Board. An ad hoc committee considered the request on December 21, 1978, and, based upon its consideration of the case, briefs of opposing sides and related material, voted that the request be denied. The decision of the Regional Trial Board hearing panel therefore became effective on December 21, 1978.

At a meeting of a hearing panel of Regional Trial Board XI on November 17, 1978, Frank Foote of Webster, New York, was charged with violating the AICPA rules on accounting and auditing standards in rendering a substandard report on the financial statements of a client. (He had previously received an automatic suspension of membership in connection with the same report, see September 5, 1977 Letter.)

The hearing panel found Mr. Foote guilty of the technical standard violations as charged. The panel decided that he should complete 40 hours of CPE courses in accounting and auditing each year for two consecutive years and submit to a peer review of his practice under AICPA auspices during the second year. The panel also decided that if the requirements were not completed within the prescribed period, that he should be expelled from membership in the AICPA.

**Banker Elected FAF
Trustee-At-Large**

The Financial Accounting Foundation recently announced the election of William H. Dougherty, Jr., president of NCNB Corp., Charlotte, North Carolina, as a trustee-at-large. Dougherty, who will serve for a three-year term, was endorsed by the American Bankers Association, the Association of Bank Holding Companies, Association of Reserve City Bankers, the Bank Administration Institute and Robert Morris Associates.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting and Review Services

An open meeting of the accounting and review services committee will be held on February 28 in the AICPA board room and on March 1 in the Hudson Suite of the Rainbow Room, 30 Rockefeller Plaza, both in New York. Meetings will be from 9:00 a.m. to 5:00 p.m.

All sessions will be devoted to the consideration of a draft for exposure on a proposed statement, *Reporting on Comparative Financial Statements*.

Accounting Standards

The accounting standards executive committee will hold an open meeting on March 6-8 at the Hyatt Regency Hotel, Phoenix, starting at 9:00 a.m. each day. The agenda follows:

March 6 - a.m.

- ☐ Currency Swaps. (Discussion of preliminary draft.)
- ☐ Classification of Preferred Stock. (Report of task force.)

March 6 - p.m.

- ☐ Bank Loan Losses. (Discussion of preliminary draft.)
- ☐ GAAPFR Restatement. (Discussion of preliminary draft.)

March 7 - a.m.

- ☐ Joint Venture Accounting. (Consider draft for exposure.)
- ☐ Sales with Leasebacks. (Report of task force.)
- ☐ Contingent Rentals. (Report of task force.)

March 7 - p.m.

- ☐ Real Estate Acquisition, Development and Construction Costs. (Consider draft for exposure.)
- ☐ Sales-type Leases of Real Estate. (Report of task force.)

March 8 - a.m.

- ☐ Hospital Related Organizations. (Consider draft for exposure.)
- ☐ Personal Financial Statements. (Consider draft for exposure.)

March 8 - p.m.

- ☐ Capitalization of Interest. (Report of task force.)

Auditing Standards

An open meeting of the auditing standards board will be held in New York on February 21-23 in the AICPA board room. Meetings start at 9:30 a.m. on the 21st and at 9:00 a.m. on the other two days, adjourning at 1:00 p.m. on the 23rd. The agenda items are as follows:

February 21 - a.m.

- ☐ Reporting on Internal Accounting Control. (Discussion of point outline.)

February 21 - p.m.

- ☐ Reporting on Internal Accounting Control. (Continuation of discussion.)
- ☐ Auditors' Reports. (Discussion of preliminary draft.)

February 22 - a.m.

- ☐ Review of Interim Financial Information. (Consider draft for publication.)
- ☐ Use of Specialists. (Discussion of preliminary draft.)

February 22 - p.m.

- ☐ Audit Involvement with Required Supplemental Information. (Consider draft for exposure.)
- ☐ Quality Control. (Consider draft for exposure.)

February 23 - a.m.

- ☐ Single-Auditor Approach. (Preliminary discussion of subject.)
- ☐ Revision of Sections 516 and 517 of SAS no. 1. (Consider draft for exposure.)
- ☐ Comparative Statements - Unaudited. (Consider draft for exposure.)

Board of Examiners

The AICPA's board of examiners will hold an open meeting on February 23 at the Hyatt Regency Hotel, Los Angeles, between 10:00 a.m. and noon.

The agenda will consist of preliminary discussion of the following topics:

- ☐ Uniform Statistical Information Questionnaire for 1980.
- ☐ Content Changes Proposed for Business Law to Reflect New Federal Bankruptcy Law and Adoption of 1972 UCC Amendments by a Majority of the States.

Changes from these notices will be reported by the meetings information telephone service. The number is 212/575-5694.

Washington Briefs

The Internal Revenue Service recently issued more liberalized rules to allow persons practicing before it to advertise their services. The rules amend the advertising and solicitation provisions governing practice by CPAs, attorneys, enrolled agents and others who represent clients before the IRS. Certain restrictions on solicitation are included in the rules which will be effective as of February 24, 1979. For further information, see the January 24 *Federal Register*.

Taxpayers who reported sales of property inherited from a person dying after December 31, 1976 must file amended tax returns. The IRS, in IR-2071, reminds taxpayers that the carryover provisions of the 1976 Tax Reform Act concerning inherited property were suspended until after December 31, 1979 by the Revenue Act of 1978. Under the 1978 act, the basis of property from a decedent dying before January 1, 1980 is generally the fair market value at the date of death or an alternative valuation date.

A bill to simplify and clarify several of ERISA's provisions, protect plan participants against misrepresentations, stimulate the creation of new plans through economic incentives and consolidate the administration and enforcement of ERISA in one government agency was recently introduced. Bill S 209, introduced by Senators Williams (D-N.J.) and Javits (R-N.Y.), is generally similar to last year's bill, but some changes have been made.

Final rules have been issued on income from certain dividends from Domestic International Sales Corporations (DISCs). The regulations affect all DISCs and all taxpayers who are DISC shareholders. They are effective for taxable years beginning after December 31, 1975.

The U.S. Supreme Court, in *Teamsters v. Daniel*, ruled that federal securities laws don't apply to company-financed compulsory pension plans. The Court, in overturning a lower-court opinion, decided that a noncontributory, compulsory pension plan couldn't be a "security" subject to the protection of the federal securities laws. An employee's participation in such a plan doesn't constitute an investment contract, added the Court.

Rules prohibiting the omissions of material fact or issuance of misleading statements, intentional or unintentional, by corporate officers and directors to auditors in connection with the audit of financial statements or the filing of required reports, have been adopted by the SEC (Reg. 13b-2: Maintenance of Records and Preparation of Required Records).

The CPA Letter

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The CPA Letter

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FASB Amends Oil and Gas Statement...

The Financial Accounting Standards Board, at a meeting earlier this month, decided to issue a statement that will amend FAS no. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. Entitled *Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies*, FASB Statement no. 25 substantially follows the proposals set forth in the November 7, 1978, exposure draft. However, the following are key exceptions:

- ☐ The treatment of exploration advances and production payments, as cited in paragraphs 42 and 43 of FAS no. 19, shall be retained without suspension of the effective date.
- ☐ The required disclosures of oil and gas reserves may be moved outside the financial statements.

Copies of the statement are available, at nominal cost, from the FASB, Publications Division, High Ridge Park, Stamford, Conn. 06905.

The AICPA's oil and gas reserve data committee had been about ready to issue an exposure draft on auditing procedures for oil and gas reserve information, but will reconsider its proposals in view of the FASB's action.

... and Exposes Draft on Leases

The Financial Accounting Standards Board recently issued an exposure draft of a Statement of Financial Accounting Standards, *Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases*, which would amend its Statement no. 13, *Accounting for Leases*. If adopted, the proposal would require a lessor to classify a renewal or an extension of a sales-type or direct financing lease as a sales-type lease if it would otherwise qualify as a sales-type lease and if the renewal or extension occurs at the end of the term of the existing lease.

Comments are due by April 16. Up to five free copies are available from the FASB until the comment date. Subsequently, there will be a charge.

In another matter, the board has tentatively added to its agenda a project on accounting for leases to determine whether expected increases in values should be considered in estimating residual values. The FASB staff has also been requested to produce further information on residual value estimates.

SOP on Cable Television Accounting Approved

The Institute's accounting standards division has approved a statement of position dealing with cable television accounting.

SOP 79-2, *Accounting by Cable Television Companies*, describes cable television companies' current specialized accounting practices and calls for a clarification and a narrowing of alternative accounting practices within the industry. The statement differs from the exposure draft issued in late 1977 (see the December 12, 1977 *Letter*), particularly in the areas of hookup revenues and computation of capitalization. The division also has decided that, because of the FASB's pending consideration of accounting for interest costs, this SOP will state no conclusions on the general subject of interest capitalization.

Copies will be available next month from the AICPA order department.

Ethics Committee Actions

At its meeting on February 7, the AICPA's professional ethics executive committee approved the issuance of ten rulings, an interpretation and a modification of an interpretation. The texts of these pronouncements will appear in a forthcoming issue of the *Journal of Accountancy* and involve the following areas:

- ☐ *Ethics Rulings* — Employment by Non-CPA Firms; Course Instructor, regarding promotion of the course; Newsletter, member responsibility regarding promotion by a publishing house of member-authored publication; Letterhead of Lawyer-CPA; Member Interviewed by the Press, restricting the information to that which he could publish himself.

Also, Computer Service Franchise, a practicing member can be a representative of a computer organization providing services only to tax practitioners; Referral, improper for a member to have an arrangement with a management specialist who would recommend the member if the specialist's surveys indicated accounting deficiencies; Data Processing, Fees Paid to Other CPAs; Announcement of Member's Withdrawal from Firm; Bank Director, describes the implications to be considered.

- ☐ *Interpretations* — Interpretation 101-4(2), Effect of Family Relationships on Independence was modified as it affected the relationships that may be ascribed to the member. Interpretation 502-5, Engagements Obtained Through Efforts of Third Parties, permits such engagements if all promotional efforts are within the bounds of the Rules of Conduct.

Also, a proposed modification of Ruling 176 under Rule 502, Newsletters and Publications Prepared by Others, regarding imprinting of a firm's name, was approved for exposure.

Recent Publications

Financial Report Survey no. 18: Illustrations of Auditors' Reports on Comparative Financial Statements — This report surveys the application of Statement on Auditing Standards no. 15, *Reports on Comparative Financial Statements*. The examples are from the published annual reports of the more than 8,000 companies stored in the AICPA National Automated Accounting Research System. Price is \$8.50; \$6.80 to members.

Uniform CPA Examination — November 1978 — Questions and Unofficial Answers — This booklet is the latest in the supplements comprising the questions and answers for these examinations. Price is \$2.

These publications are available from the AICPA order department.

Digest of State Accountancy Laws and State Board Regulations — This guide summarizes the principal legal requirements governing the licensing and regulation of professional accountants on a state-by-state basis, as well as including comparative tabulations. It is based on material supplied by the National Association of State Boards of Accountancy and published by Prentice-Hall, Inc., from whom copies are available at \$20.00 each, with quantity discounts. The address is Englewood Cliffs, N. J. 07632; attention T. M. Berntson.

According to Thomas P. Kelley, AICPA managing director — technical, an accounting and auditing manual geared to needs of local practitioners is in progress and is expected to be available before June 30, 1979.

**National
Governmental
Training Program Set**

The AICPA's continuing professional education division and the Association of Government Accountants will hold two one-week programs later this year to help develop the necessary skills to effectively plan and perform state and municipal audits. The National Governmental Training Programs will be held August 6-10 at the Sheraton International Center in Reston, Va., and on September 11-14 at the Ormsby House in Carson City, Nevada.

Topics include organization and functions of government, public administration, accounting principles and auditing standards, grant management and auditing, pensions, governmental budgeting and administrative law. Representatives of CPA firms, academia and government will be discussion leaders.

Price is \$550; a \$50 discount on registrations received before May 15. For further information, contact Bennie Hadnott in the Institute's CPE division.

**Accounting
Educators
Sought by CPE**

The Institute's continuing professional education division is currently seeking accounting educators who wish to become more involved in advanced technical education for CPAs. The demand for advanced technical training has risen and demand is expected to continue as additional states begin to require CPE and as accounting firms start to comply with the CPE requirements for participation in the AICPA's division for CPA firms.

Educators are sought for the following: developing new training programs; performing technical reviews of draft programs prepared by other authors; converting programs from one format to another; and acting as discussion leaders for group study programs. Honorariums are generally paid to discussion leaders by either the AICPA or the state CPA society sponsoring the presentation.

For further information, including the CPE catalog and the CPE Data Bank Form, which is used as a reference to select educators for future CPE activities, contact Rex B. Cruse, Jr., CPE director, at the Institute.

**Task Forces
Appointed by Several
AICPA Groups**

The following computer services task forces have been established:

- ☐ *Auditing Minicomputers Task Force* — This group will draft a new computer services guideline to assist the auditor in planning the audit when the client has a minicomputer to process the financial records. Chairman is Alan Nierenberg, Price Waterhouse & Co., Hartford.
- ☐ *Auditing On-Line Systems Task Force* — This group, chaired by Richard Barnes, Lone Star Industries, Greenwich, Conn., will research and report on the audit and control implications of on-line systems.

The Institute's quality control standards committee has named the following:

- ☐ *Task Force on Proposed Statement no. 1 on Quality Control Standards* — chaired by George J. Frey, Peat, Marwick, Mitchell & Co., New York.
- ☐ *Task Force to Restudy and Reissue "Policies and Procedures for Participating CPA Firms"* — chairman is Robert W. Burmester, Arthur Young & Company, New York.
- ☐ *Task Force on Quality Control of the Work of Affiliates, Correspondents and International Practice* — chaired by Paul B. Clark, Main Lafrentz & Co., New York.

Three new task forces have been named by the accounting standards division.

- ☐ *Task Force on Small GAAP* (for smaller and closely-held companies) — chairman is John W. Hoyt, McGladrey Hendrickson & Co., Des Moines.
- ☐ *Task Force on Preferred Stock Classification* — chaired by William D. Mahaney, Clarence Rainess & Co., Tonawanda, N. Y.
- ☐ *Task Force on APB Opinion no. 25* — chaired by Jerry Weygandt, professor of accounting, University of Wisconsin — Madison.

Washington Briefs

Representatives Conable (R-N.Y.) and Fisher (D-Va.) have reintroduced their bill (HR 1785) to allow all taxpayers to take a tax deduction for charitable contributions whether or not they itemize. A companion measure (S 219) has been introduced in the Senate by Senators Moynihan (D-N.Y.) and Packwood (R-Ore.). Presently, only those who itemize may use the deduction for contributions to charities.

The Senate Finance Taxation and Debt Management Subcommittee will hold hearings on the carryover basis issue on March 12, 19 and 20, 1979. The ranking Republicans on both congressional tax committees have introduced bills to repeal the rules which would provide heirs with the same basis in the property as the decedent had immediately before his death. Those wishing to testify should contact the Senate Finance Committee, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, before March 1.

Accountants aren't a de facto enforcement arm of the Securities and Exchange Commission, according to a recent unanimous decision of the U.S. Court of Appeals. The decision affirms a prior U.S. District Court decision, absolving auditors for GeoTek Resources Fund, Inc., and related companies from any violation of federal securities laws. The Court disagreed with the SEC's view that auditors could have done "more" to reveal to potential investors the possibility of misconduct by the oil and gas venture capital promoter.

The SEC has appointed a 21-member advisory committee on oil and gas accounting. The committee, chaired by Burnell H. Devos, Jr., Price Waterhouse & Co., New York, will advise the SEC in the development of "reserve recognition accounting" (see September 25, 1978, Letter). Committee vice chairman is Stanley P. Porter, Arthur Young & Company, Dallas.

Richard H. Rowe, director of the SEC's division of corporate finance, recently resigned to enter private law practice in Washington. The division of corporate finance, the commission's largest division, oversees the corporate reports that must be filed with the SEC. A successor hasn't been named yet.

In Rel. 33-6022, the SEC has issued new proposed rules on tender offers. In the release, the SEC has withdrawn rules proposed in 1976 and now issues for comment new rules to implement and augment the present statutory requirements by providing specific filing, delivery and disclosure requirements on certain tender offers as well as particular antifraud provisions applying to any tender offer. Comments are due by March 30.

The CPA Letter

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The CPA Letter

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POB Issues Scope of Services Report

The public oversight board, which monitors the SEC practice section of the Institute's division for CPA firms, has issued a report, *Scope of Services by CPA Firms*, to the executive committee of the section and to the SEC.

The POB concludes that, in general, maintenance of independence should be the only limitation on scope of services and that independence should be assessed after considering potential benefits derived from furnishing various services and recognizing that integrity and risk of civil liability and administrative sanctions can offset some loss of objectivity.

The POB accepts the recent action of the section's executive committee proscribing certain executive recruiting services and supports increasing public disclosure about MAS work furnished by an auditor to a client. But, the report recommends that, at this time, "no rules be imposed to prohibit specific services on the grounds that they are or may be incompatible with the profession of public accounting, might impair the image of the profession, or do not involve accounting or auditing related skills." However, it cautions that developments which detract from the primary function of auditing will surely damage the professional status of CPA firms.

The POB urges reliance on existing programs and procedures and suggests that adherence to the portions of the "MAS Professional Standards" and the "Code of Professional Ethics" in *AICPA Professional Standards* relating to independence be made a condition of membership in the SEC practice section.

Copies of the report are available at \$3.00; \$2.40 to AICPA members from the Institute's order department.

ASB Approves Standard on Interim Statements

The AICPA's auditing standards board, at its meeting on February 21-23, approved a statement on auditing standards, *Review of Interim Financial Statements* (SAS no. 24). The new statement supersedes SAS nos. 10 and 13.

The final statement does not contain any significant revisions to the exposure draft (see December 11, 1978, *Letter*). One of the basic provisions is that, based on specified review procedures, a CPA is permitted to issue a report, accompanied by an expression of assurance, on his review of interim financial information of publicly-held companies. It clarifies the position that 12-month financial statements on other than a year-end basis are to be considered interim statements. The effective date is for interim periods ending on or after March 31, 1979.

In other matters, the board approved drafts of two proposed statements for balloting for exposure. They are as follows:

- ☐ *Association with Financial Statements*. The draft would revise sections 516-518 of SAS no. 1 and paragraphs 13-15 of SAS no. 15.
- ☐ *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards* (replacing SAS no. 4). If approved, the exposure draft will be accompanied by a proposed quality control standard, *System of Quality Control for a CPA Firm*.

Copies of the statement and the drafts, if approved, should be available from the Institute's order department about the end of the month.

AICPA Considers Bank Bonding Plan Guidelines

The Institute's committee on banking is considering issuing a document, *Suggested Guidelines for CPA Participation in the American Bankers Association Controlled Group Bonding Plan*. The guidelines, if adopted, would familiarize CPAs with the ABA controlled group bonding plan, describe how to obtain approval from the ABA as a bank examination firm, and provide guidance for establishing the scope of a special examination and for issuing reports thereon.

The ABA's controlled group bonding plan sets certain criteria for firms performing special reviews of banks. The ABA says the plan will help bankers and insurers establish and maintain a bankers blanket bond insurance market. The plan is geared mainly to banks with total assets of \$300 million or less. However, the committee does not differentiate between banks with over or under \$300 million in assets when determining the experience of examining firms in providing services to banks. The guidelines would specify certain steps that must be taken before a bank can be accepted into the controlled group program.

The AICPA committee on banking believes that additional guidance is necessary for CPAs wishing to participate in the plan as examiners.

Meetings Set on GAAFR Restatement Principles

The Municipal Finance Officers Association has scheduled six regional colloquia to discuss the National Council on Governmental Accounting's Statement no. 1, *Governmental Accounting and Financial Reporting Principles*. The statement sets forth the principles of the GAAFR Restatement, the revision of the National Council on Governmental Accounting's 1968 pronouncement, *Governmental Accounting, Auditing, and Financial Reporting*.

The colloquia, to be held in April and May, will focus on changes to enable major improvements and streamlining in fund and account group accounting, budgeting and budgetary reporting, accounting for grants and financial reporting. For further information on the colloquia, contact the MFOA, 180 North Michigan Avenue, Suite 800, Chicago, Ill. 60601.

One significant objective of the GAAFR restatement project is to incorporate pertinent aspects of the AICPA's 1974 Audit Guide, *Audits of State and Local Governmental Units*. Issuance of the completed GAAFR, with illustrative chapters for funds and other significant areas, is expected later this year.

Draft SOP on Title Insurance Companies Re-Exposed

The Institute's accounting standards division has issued a second exposure draft of a proposed statement of position on *Accounting for Title Insurance Companies*. The draft, by the AICPA insurance companies committee, expresses the committee's conclusions in certain areas in which accounting alternatives exist for title insurance companies.

The first draft on this topic was issued last May (see May 8, 1978, Letter) and a public hearing was held in July. A key change in the committee's conclusions is its position on accounting for title plant. The committee has taken the position that it is a tangible asset that should not be depreciated because, if properly maintained, the historical data in a title plant "has an indeterminate life and does not diminish in value with the passage of time."

Comments are due by May 16, 1979, and should be directed to David Roscetti at the Institute. Copies of the draft may be obtained later this month from the AICPA order department.

**SSARS Effective
Date Should Not
Be Advanced**

Statement no. 1 on accounting and review services standards states that it "will be effective for compilations and reviews of financial statements for periods ending on or after July 1, 1979." CPAs have been asking whether the forms of report in the statement can be used before the effective date and some have decided early application is appropriate. According to Thomas P. Kelley, AICPA's managing director — technical, SSARS no. 1 does not encourage or provide for early application. The committee believed that time was needed to familiarize bankers and other users of financial statements, as well as CPAs, with the requirements of the statement. "Practitioners, therefore, are encouraged to adhere to the statement's effective date provision," said Mr. Kelley.

**FASB to Set
Standards on
Supplemental
Disclosures**

The Financial Accounting Standards Board has announced that it intends to establish standards for disclosure of financial information that accompanies financial statements, but is outside of the statements, and that a program for doing so is now underway.

The board will not inaugurate a new series of pronouncements to implement the new policy, but will incorporate these standards in its usual statements.

Last December, the AICPA's board of directors agreed that, if the FASB could issue such standards on a timely basis, it would recommend that council adopt a resolution, under Rule 204, that the FASB be designated as the body to promulgate such standards for the guidance of independent auditors.

**IASC Issues Standard
on Construction
Contracts**

The international accounting standards committee has issued, as part of its program to develop worldwide accounting standards, Standard no. 11, *Accounting for Construction Contracts*. It prescribes two methods for accounting for revenues and related costs: "percentage of completion" and "completed contract."

The new standard allows a contractor to choose between the two accounting methods, as long as reliable estimates can be made. Once a contractor chooses a method for a particular contract, he should apply the same method to all other contracts that meet similar criteria. To provide such reliability for using the percentage of completion method on a fixed-price contract, the statement requires dependable estimates of total contract revenue, the costs of completing the contract and the stage of completion at the reporting date. This method can also be used on cost-plus contracts if the contractor can clearly identify costs and estimate those that are not specifically reimbursable.

The international standard is similar to that in effect in the U.S., but provides a little more leeway in choosing the method to be used under specific circumstances. In this connection, the AICPA's accounting standards division is preparing a statement of position defining its criteria for choosing between the two methods. If approved, publication is expected this spring.

Copies of the IASC standard are available from the Institute's order department at \$2.00 each, with the usual discounts.

At its February 27 meeting, the committee approved for publication IAS no. 12, *Accounting for Income Taxes*. This standard, which should be available next month, accepts both the deferred and liability concepts and both comprehensive and partial allocation.

The IASC also added two new agenda items: accounting for receivables and payables and accounting for government grants.

Organizationally, Willis A. Smith of CPC International, Inc., Englewood Cliffs, New Jersey, has replaced Eugene J. Minahan as one of the two U.S. representatives on the committee and as a member of the AICPA's technical standards subcommittee (international). The other representative is Donald J. Hayes, Arthur Young & Company, Los Angeles.

**Warning Signals of
the Possible
Existence of Fraud**

The AICPA's standing subcommittee on methods, perpetration and detection of fraud (see October 23, 1978, Letter) has compiled the following preliminary list of conditions or events which may signal the possible existence of a fraud situation. It is designed to invite comments so that an improved list may be developed for publication. Comments should be sent to R. Wachtel at the AICPA.

1. Highly domineering senior management and one or more of the following, or similar, conditions are present:
 - ☐ An ineffective board of directors and/or audit committee.
 - ☐ Indications of management override of significant internal accounting controls.
 - ☐ Compensation or significant stock options tied to reported performance or to a specific transaction over which senior management has actual or implied control.
 - ☐ Indications of personal financial difficulties of senior management.
 - ☐ Proxy contests involving control of the company or senior management's continuance, compensation or status.
2. Deterioration of quality of earnings evidenced by:
 - ☐ Decline in the volume or quality of sales (for example, increased credit risk or sales at or below cost).
 - ☐ Significant changes in business practices.
 - ☐ Excessive interest by senior management in the earnings per share effect of accounting alternatives.
3. Business conditions that may create unusual pressures:
 - ☐ Inadequate working capital.
 - ☐ Little flexibility in debt restrictions such as working capital ratios and limitations on additional borrowings.
 - ☐ Rapid expansion of a product or business line markedly in excess of industry averages.
 - ☐ A major investment of the company's resources in an industry noted for rapid change, such as a high technology industry.
4. A complex corporate structure where the complexity does not appear to be warranted by the company's operations or size.
5. Widely dispersed business locations accompanied by highly decentralized management with inadequate responsibility reporting system.
6. Understaffing which appears to require certain employees to work unusual hours, to forgo vacations and/or to put in substantial overtime.
7. High turnover rate in key financial positions such as treasurer or controller.
8. Frequent change of auditors or legal counsel.
9. Known material weaknesses in internal control which could practically be corrected but remain uncorrected, such as:
 - ☐ Access to computer equipment or electronic data entry devices is not adequately controlled.
 - ☐ Incompatible duties remain combined.
10. Material transactions with related parties exist or there are transactions that may involve conflicts of interest.
11. Premature announcements of operating results or future (positive) expectations.
12. Analytical review procedures disclosing significant fluctuations which cannot be reasonably explained, for example:
 - ☐ Material account balances.
 - ☐ Financial or operational interrelationships.
 - ☐ Physical inventory variances.
 - ☐ Inventory turnover rates.
13. Large or unusual transactions, particularly at year-end, with material effect on earnings.
14. Unusually large payments in relation to services provided in the ordinary course of business by lawyers, consultants, agents and others (including employees).
15. Difficulty in obtaining audit evidence with respect to:
 - ☐ Unusual or unexplained entries.
 - ☐ Incomplete or missing documentation and/or authorization.
 - ☐ Alterations in documentation or accounts.
16. In the performance of an examination of financial statements unforeseen problems are encountered, for instance:
 - ☐ Client pressures to complete audit in an unusually short time or under difficult conditions.
 - ☐ Sudden delay situations.
 - ☐ Evasive or unreasonable responses of management to audit inquiries.

MAS Program Set for Less Experienced Practitioners

The second annual AICPA National MAS Training Program will be held the weeks of June 17-22 and June 24-29 at the Austin campus of the University of Texas. It is sponsored jointly by the university and the Institute's CPE division.

The first week's program will develop consulting skills for practitioners with less than two years' experience in MAS, whether or not their firms have formal MAS departments. Some of the major topics include engagement planning, scheduling, conduct and documentation, systems design and implementation, analytical and problem solving processes, and small business consulting.

The second week's program will train practitioners with two to three years' experience in MAS to direct an engagement in designing and implementing a financial planning and control system for a small business client. Major subjects to be discussed include information systems and organization objectives, MAS approach to financial control systems analysis and design, and manufacturing control systems and planning.

Instruction will consist of lectures by a nationwide faculty of experienced practitioners as well as small group application sessions led by University of Texas Graduate School of Business faculty members. Tuition for each week's program is \$575, plus \$150 for room and board.

For information on this program, contact Stacy Kosmides at the AICPA.

Guidelines on Letters of Comment Issued

The SEC practice section of the Institute's division for CPA firms has issued a document entitled *Guidelines for Preparing Letters of Comment* to assist review teams in preparing letters of comment in conjunction with peer reviews administered by the section.

Copies of the guidelines are being sent to each firm that is a member of the section. Additional copies are available by writing to the SEC practice section.

AICPA Staff Changes

The following are recent changes in the AICPA staff organization:

- ☐ Donald L. Adams has been promoted to vice president — administrative services, which will include responsibility for the controller's division. 212/575-6296.
- ☐ George Taylor has become senior controller until his retirement in November 1979. 212/575-6383.
- ☐ Geoffrey Kilpatrick has been promoted to controller. 212/575-6385.
- ☐ Michael O'Driscoll has been promoted to director of the new division of information services (computer operations, systems, membership records and admissions). 212/575-6303.
- ☐ Rex Cruse has been named managing director — continuing professional education. 212/575-6242.
- ☐ Daniel Sweeney has transferred to CPE as director — CPE standards and recruitment. 212/575-5498.
- ☐ Herbert Finkston replaces Mr. Sweeney as director — professional ethics division. 212/575-6209.

A complete list of key AICPA staff functions will appear in a forthcoming issue of the *Letter*.

CPE Catalog Distribution Set

Continuing the distribution policy begun last year, the Institute will mail its 1979-80 CPE Catalog to all practice units and to other individuals requesting a free copy — not to all AICPA members. Those who requested a copy of the catalog last year will automatically receive this year's edition.

Copies also may be obtained free of charge by writing to the Institute's CPE marketing department.

Washington Briefs

Representative Richard Schulze (R-Pa.), a member of the House Ways and Means Committee, recently introduced a seven-part bill (HR 1600) to help small businesses with a variety of tax breaks. Major elements of the bill include giving sole proprietorships the option of the cash or accrual method of accounting, providing a \$5 tax credit for each form or document a small business is required to file by federal law and allowing a small businessman to reinvest profits for the sale of a business into another small business within 18 months without the payment of capital gains tax.

Harvey Kapnick, Jr., chairman and chief executive officer of Arthur Andersen & Co., has been named to serve on the President's Commission on Pension Policy. The commission was established to examine public and private pension systems in an effort to develop a national retirement policy. The group will submit several reports to Congress and the President during its two-year term.

The Securities and Exchange Commission recently proposed an extensive series of regulations aimed at clarifying the rules for corporate takeovers and acquisitions. In proposing the new rules, the SEC withdrew a set of rules proposed in 1976. The proposed rules are grouped into two documents, Regulations 14D and 14E. Comments on the proposals are due by March 30.

Noting that taxpayers need to be put on equal footing with the Internal Revenue Service on tax matters, Senator Dale Bumpers (D-Ark.) has introduced a bill he calls "the taxpayers bill of rights act." Among other measures, the bill would require the IRS to prepare and distribute pamphlets on options a taxpayer has in resolving disputes with the IRS. The senator said the bill would help restore citizens' confidence in federal tax laws while helping them resolve disputes with the IRS.

The SEC, in Release no. 33-6028, announced its views on accounting changes by oil and gas producers. If conforming the company's present accounting method to the specified version of that method (full cost or successful efforts) has a significant effect on the company's financial statements, the SEC concluded that the company may then change to either of the specified forms of accounting.

Also, in Release no. 33-6029, the SEC withdrew its August 1978 proposal that would have required oil and gas producers following the full cost method of accounting to make supplemental disclosures of capitalized costs and costs incurred had the successful efforts method been followed.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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The CPA Letter

A Semimonthly News Report Published by the AICPA

FAF Appoints FASB Member and Advisory Council

Frank E. Block, vice president of Bache Halsey Stuart Shields, Inc., has been appointed a member of the Financial Accounting Standards Board. He will fill the two-year unexpired term of Oscar S. Gellein, who retired from the board on December 31, 1978. The announcement was made by Alva O. Way, president of the Financial Accounting Foundation.

Mr. Block is the first financial analyst and banker to serve on the board. He was president of the Financial Analysts Federation in 1969-70 and of the Institute of Chartered Financial Analysts in 1971-72.

The foundation trustees have also appointed members of the Financial Standards Advisory Council for 1979. In addition to 28 reappointments, there are 8 new members, as follows: Kenneth S. Axelson, senior vice president, J. C. Penney Co., Inc.; John R. Edman, vice president-finance, General Motors Corporation; Donald J. Hayes, partner, Arthur Young & Company; Robert S. Kay, partner and national director of professional standards, Touche Ross & Co.; Robert W. Moore, president, Financial Executives Institute; Wallace E. Olson, president, American Institute of CPAs; Marc J. Shapiro, executive vice president, Texas Commerce Bancshares, Inc.; and Abraham M. Stanger, Esq., senior partner, Trubin, Sillcocks, Edelman & Knapp.

The advisory council consults with the FASB on major technical issues, the board's agenda and matters likely to require the board's attention.

FASB Issues Proposals on Constant Dollar Accounting

The Financial Accounting Standards Board has issued an exposure draft, *Constant Dollar Accounting*, which proposes certain changes to its 1974 draft, *Financial Reporting in Units of General Purchasing Power*.

The new supplement is related to the board's proposal last December, *Financial Reporting and Changing Prices*, under which certain large companies would use either current cost or constant dollar accounting in presenting income from continuing operations and related information as supplemental information to financial statements.

The most significant changes from the 1974 document are as follows:

- ☐ The index to be used for constant dollar accounting in the U.S. would be the Consumer Price Index for All Urban Consumers (CPI-U), rather than the Gross National Product Implicit Price Deflator.
- ☐ Deferred income tax items, foreign currency and foreign currency claims and obligations would be classified as monetary items.
- ☐ A five-year summary of selected financial data presented in constant dollars may be stated in end-of-current-year dollars or in base-year dollars.
- ☐ Comprehensive restatement of the basic financial statements would not be required, and the financial data to be presented in constant dollars would be those specified in the December 1978 exposure draft.

The new exposure draft also provides additional information on short-cuts and other computational procedures.

Comments on both the constant dollar proposals and those on changing prices are due by May 1. Up to five copies of these drafts are available free, until May 1, from the FASB, High Ridge Park, Stamford, Conn. 06905.

Three AICPA Members Expelled— Convictions Upheld ...

The Institute's bylaws provide that membership in the Institute shall be suspended without a hearing for conviction of a crime defined as a felony under the laws of the convicting jurisdiction and that membership shall be terminated if the conviction is final.

- On January 8, 1979, the memberships of Marvin A. Lichtig of Woodland Hills, California, and Julian S. H. Weiner of Beverly Hills, California, were terminated following receipt by the Secretary of the Institute of final judgments of their convictions of felonies arising from the failure of the Equity Funding Corporation of America.

The memberships of Messrs. Lichtig and Weiner had been suspended on August 4, 1975, pending appeal of their convictions in the U.S. District Court of fraud in the sale of securities and of false filings with the Securities and Exchange Commission (see January 12, 1976, Letter).

The District Court decisions were affirmed in the Circuit Court of Appeals and petitions for certiorari were denied by the U.S. Supreme Court.

- On July 21, 1977, the membership of Stephen K. Easton of New York City was suspended pending appeal of his conviction in the U.S. District Court of embezzlement of bank funds (see October 10, 1977, Letter).

The decision was affirmed in the Circuit Court of Appeals and petition for certiorari was denied by the U.S. Supreme Court. On January 30, 1979, Mr. Easton was notified that his membership had been terminated.

... Another Expelled Under Automatic Provisions

The Institute's bylaws also provide that membership in the Institute shall be terminated without a hearing for conviction of the misdemeanor of willful failure to file any income tax return which the member, as an individual taxpayer, is required by law to file.

On December 12, 1978, Paul D. Milgrom of New Brunswick, New Jersey, was notified that his membership was terminated following conviction, on his plea of guilty, of willful failure to timely file his federal income tax return.

Recent AcSEC Actions

At its meeting in Phoenix earlier this month, the AICPA's accounting standards executive committee took the following actions:

- ☐ Agreed to expose for public comment, after review by the FASB, a proposed statement of position on accounting and financial reporting by governmental units, an amendment to the AICPA industry audit and accounting guide, *Audits of State and Local Governmental Units*.
- ☐ Agreed to send to the FASB an issues paper, in the form of a proposed statement of position, on accounting for real estate acquisition, development and construction costs and to expose it for public comment if the FASB asks the AICPA to continue with the project.
- ☐ Agreed to send to the FASB issues papers on joint venture accounting, personal financial statements and currency swaps.
- ☐ Approved letters of comment on four FASB exposure drafts: *Determining Contingent Rentals*, *Accounting for Sales with Leasebacks*, *Capitalization of Interest Costs* and *Profit Recognition on Sales-Type Leases of Real Estate*.
- ☐ Approved a comment letter to be sent to the Securities and Exchange Commission on Release no. 33-6000 on classification of preferred stock.

**Two SOPs Issued
by ASD**

The Institute's accounting standards division has approved two statements of position; one dealing with investments of stock life insurance companies; the other with motion picture films.

- ☐ SOP 79-3, *Accounting for Investments of Stock Life Insurance Companies*, amends the AICPA Industry Audit Guide, *Audits of Stock Life Insurance Companies*. It presents the division's recommendations on accounting for all investments and related realized and unrealized gains or losses of stock life insurance companies, and accounting for real estate by those companies. The statement applies only to stock life insurance companies.
- ☐ SOP 79-4, *Accounting for Motion Picture Films*, amends the AICPA industry accounting guide, *Accounting for Motion Picture Films*. The division believes that restrictions on timing of showings other than the first showing of a motion picture film under a license agreement should not affect the recognition of revenue when there is no conflicting license preventing usage by the licensee.

Copies of the SOPs are available from the Institute's order department at \$1.50 each with usual quantity discounts.

Recent Publications

Audit and Accounting Guide on Savings and Loan Associations — This updated guide describes how accounting principles and auditing procedures apply to various aspects of this industry and also includes illustrative financial statements. Price is \$5; \$4 to members. Copies will be available shortly from the AICPA order department.

The Institute's minority recruitment and equal opportunity committee has recently issued its surveys of minority employment and placement of accounting graduates from the historically black and minority colleges and universities for the spring of 1978. A list of July and December 1978 scholarship award winners is also included. Copies are available free by writing to Sharon Donahue at the Institute.

NOTICE OF AICPA PUBLIC MEETING

Auditing Standards

The AICPA's auditing standards board will hold an open meeting on April 3-5 at the Galleria Plaza in Houston from 9:00 a.m. to 5:00 p.m.

April 3 - a.m.

- ☐ Audit Evidence. (Discussion of preliminary draft.)

April 3 - p.m.

- ☐ Financial Forecasts. (Discussion of preliminary draft.)

April 4 - a.m.

- ☐ Reporting on Internal Accounting Control. (Discussion of point outline.)

April 4 - p.m.

- ☐ Auditor Involvement with Required Supplemental Information. (Discussion of preliminary draft.)

April 5 - a.m.

- ☐ SAS no. 14: Implementation Problems. (Preliminary discussion of subject.)

The next scheduled meetings of the board are in New York on May 15-17 and June 26-28.

Changes from this notice will be reported by the meetings information telephone service. The number is 212/575-5694.

Washington Briefs

Edward Greene, a Securities and Exchange Commission staff aide, has been named to head the commission's division of corporate finance. He succeeds Richard H. Rowe, who resigned recently. Also, Steven J. Golub, CPA, has been named SEC deputy chief accountant. Before becoming an SEC accounting fellow in 1977, Golub had been with Deloitte Haskins & Sells in New York.

The IRS has published final regulations limiting the deductibility of capital losses by taxpayers. These regulations, which are effective for taxable years after December 31, 1976, increase the maximum amount of the capital loss deduction against ordinary income from \$1,000 to \$3,000 for taxable years beginning after 1977. For further information, see the March 7 *Federal Register*.

The IRS has issued proposed rules on employee retirement benefits excluded from estate and gift taxation. These proposals would apply to amounts payable under qualified individual retirement plans. Comments are due by May 1. For further information, see the March 2 *Federal Register*.

Again this year, the IRS is seeking suggestions to improve IRS tax forms and instructions. Comments and suggestions, due by June 1, should be directed to the Chairman, Tax Forms Coordinating Committee, Room 5577, IRS, 1111 Constitution Avenue, N.W., Washington, D.C. 20224.

A bill (S. 487) to provide tax credits for persons who invest up to \$50,000 in new stock issues of small and medium-sized companies has been introduced by Senator Gaylord Nelson (D-Wisc.). Under the bill, the total investment credit could not exceed \$3,000 on an individual return and \$6,000 on a joint return. Investors would be required to hold the stock for at least one year.

A comprehensive list of regulations being developed by federal regulatory agencies has been published for the first time. The list includes summaries of 109 regulations proposed by 20 agencies covering five general areas: health and safety, human resources, natural resources, trade and commerce, transportation and communication. Copies of the list are available from the Government Printing Office, Washington, D.C. 20402, for 75 cents each (S/N 022-003-00975-2).

Nicholas J. Nichols has recently been appointed director of the AICPA's legislative affairs division in Washington, D.C. He was formerly with a Washington stockbrokerage and investment banking company.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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The CPA Letter

A Semimonthly News Report Published by the AICPA

Final Report on Internal Accounting Control Issued

The Institute's special advisory committee on internal accounting control has issued its final report providing guidance on the evaluation of internal accounting control, specifically with reference to the needs of management. The report follows up on the committee's tentative report (see September 25, 1978, *Letter*) which sought comments to aid the committee in developing guidance for evaluating internal accounting control.

The committee has concluded that internal accounting controls should extend beyond the accounting records to all external reports of historical financial information. It is also concerned with the broad objectives of "authorization, accounting and asset safeguarding." The committee also believes that an evaluation of a company's control "environment" is a necessary prelude to the evaluation of internal accounting control. The report uses a "cycle approach," but recognizes that alternative approaches may be equally effective.

Illustrations of specific objectives and examples of selected control procedures and techniques are included. The report should help management evaluate its compliance with the Foreign Corrupt Practices Act of 1977.

Copies will be mailed to all practice units shortly and will also be available from the AICPA order department at \$2.50 each; \$2 to members.

Oil and Gas Reserve Data Guide Proposed

The Institute's oil and gas reserve data committee will soon issue a proposed audit and accounting guide, *Oil and Gas Reserve Information Required by Regulation S-X*. The proposal deals with the auditing procedures to be applied to information on petroleum reserves that are included in the financial statements of entities with oil and gas producing activities that are filed with the Securities and Exchange Commission.

The proposal provides that the auditor ordinarily should obtain a consulting reservoir engineer's opinion covering all, or in certain instances a portion of, the reserves to satisfy the requirement that he obtain sufficient, competent, evidential matter concerning data in financial statements.

The proposed guide originally was developed because of FASB Statement no. 19 requirements and amendments to Regulation S-X by the SEC. The FASB has amended its statement to permit oil and gas reserve quantity data to be disclosed as supplemental information outside of the basic financial statements. The SEC has not indicated that it will similarly modify amendments to Regulation S-X that require certain reserve quantity and value information to be included in the notes to the financial statements of entities with oil and gas producing activities, nor has it indicated that it will permit the note to be marked "unaudited."

Comments are due by July 13, 1979. Specific comments on implementation difficulties and the cost of proposed auditing procedures are sought, as well as comments on alternative auditing procedures that the auditor could use to satisfy himself about oil and gas reserves.

Copies of the proposed guide are expected to be available later this month from the AICPA order department.

AICPA Members Approve Ethics Changes

The AICPA membership has voted to repeal Rule 401 (Encroachment) of the Code of Professional Ethics and to remove that portion of Rule 502 (Advertising and Other Forms of Solicitation) that proscribes direct, uninvited solicitation of specific potential clients.

A total of 71,271 members participated, representing 49% of the membership. Of those, 51,251 (71.9%) favored dropping the encroachment prohibition and 48,961 (68.7%) voted to delete the ban on direct, uninvited solicitation.

Since the votes in favor exceeded the two-thirds majority required by the bylaws, the changes took effect with the close of balloting on March 31.

Recent Publications

The Accounting Responses to Changing Prices: Experimentation With Four Models — Stemming from the work of a special AICPA task force, this monograph represents the first practical approach by corporate management in the area of price changes. It shows how 23 major public companies recast their recent financial statements in an effort to show the impact of changing prices as measured by four different models. Price is \$12.50; \$10 to AICPA members.

Fringe Benefits: A Proposal For the Future — An in-depth study of fringe benefits, this study identifies certain existing economic practices and proposes comprehensive and equitable rules to determine their tax treatment. Price is \$9.50; \$7.60 to members (available next month).

Guidelines to Assess Computerized General Ledger and Financial Reporting Systems for Use in CPA Firms — This new study in the Computer Services Guidelines series is geared to help practitioners investigate the use of computerized systems for client services. Price is \$6; \$4.80 to members (available next month).

These publications may be obtained from the AICPA's order department.

November 1978 Sells Award Winners Announced

For the November 1978 Uniform CPA Examination, 54,720 candidates completed a total of 203,658 papers — both new records. Elijah Watt Sells Awards are presented to those CPA candidates who take all four sections of the examination and achieve the three highest grade totals.

Co-winners of the Sells Gold Medal, given for the highest grade total on the examination, were Stephen P. Chang of New York City and Rebecca L. Wolf of Madison, Wisconsin. Chang, a Columbia University Ph.D., is currently enrolled in Baruch College's MBA program. He is a staff accountant with Paneth, Haber & Zimmerman in New York. Ms. Wolf, a graduate of the University of Wisconsin — Whitewater, is with Fitzpatrick & Roberts, CPAs, in Madison.

The Silver Medal, the second highest award, was won by Margaret Appolony of Largo, Maryland. Ms. Appolony, a University of Maryland graduate, is assistant controller of OAO, a contracting company in Beltsville, Maryland.

Also, Sells Bronze Medals for the third highest grade totals have been awarded to Franklin H. Butterfield of Lehigh Acres, Florida, and Mohamed S. Heakal of Wayzata, Minnesota. Butterfield, a University of North Carolina graduate, is with Price Waterhouse & Co., in Fort Lauderdale, Florida. Heakal, a Ph.D. graduate in accounting from the University of Illinois, is presently with McGladrey Hendrickson & Co. in Minneapolis.

In addition, 75 certificates with high distinction are being awarded.

REPORT OF THE NOMINATIONS COMMITTEE

To: Members of the
American Institute of
Certified Public Accountants

Pursuant to Article VI, Section 6.1.6 and 3.3 of the bylaws, the following report of the Nominations Committee is submitted.

Donald J. Schneeman, Secretary
New York, N.Y., March 12, 1979

The Nominations Committee hereby nominates the following Officers, Members of the Board of Directors, Members of Council-at-Large, elected members of Council and the National Review Board.

For Officers:

(To serve from the 1979 Annual Meeting to the 1980 Annual Meeting or until their successors shall be elected.)

Chairman of the Board:

William R. Gregory, Washington

Vice Chairman of the Board:

William S. Kanaga, New York

Vice Presidents:

Raymond C. Lauver, New York

Robert A. Liberty, Washington

Richard D. Thorsen, Minnesota

Treasurer:

Harry R. Mancher, New York

For Members of the Board of Directors:

(Three years)

James Don Edwards, Georgia

John L. Fox, New York

Bernard Z. Lee, Texas

Thomas C. Pryor, New York
(Public Member)

For Council Members-at-Large:

(Three years)

Norman E. Auerbach, New York

Philip B. Chenok, New York

Joseph E. Connor, New York

Gerald W. Hepp, Michigan

W. Ian A. McConnachie, Washington

Sol J. Meyer, Oregon

John J. van Benten, Indiana

(One year—to fill a vacancy created if Raymond C. Lauver is elected Vice President)

Stanley R. Klion, New York

For Elected Members of Council:

(Three years)

Glenda L. Rhodes, Alaska

Harold D. Edwards, Arkansas

Robert L. Lawson, California

D. Eugene Richard, California

Harry C. Slack, California

Alvin J. Kruchten, Colorado

John A. Carley, Connecticut

Robert D. Miller, Connecticut

Richard E. Arnold, Florida

Louis W. Dooner, Florida

Drakon B. Odom, Florida

Harold E. Walker, Florida

Philip H. Dohn, Jr., Georgia

Harvey D. Ogletree, Georgia

Todd S. Smith, Guam

Don I. Sakai, Hawaii

Carmen R. Milano, Illinois

Harry F. Topping, Illinois

William J. Willy, Illinois

William W. Peach, Indiana

Phillip W. Crawford, Maine

Robert W. Busch, Maryland

William J. Hajjar, Massachusetts

Ralph F. Bonanata, Michigan

Daniel E. Mead, Michigan

Howard M. Guthmann, Minnesota

Herbert R. Cohen, Missouri

Robert B. Bragg, Montana

Larry R. Larson, Nebraska

John A. Gidney, Nevada

Andre L. Dery, New Hampshire

William H. Shine, New Jersey

Sanford Rogoff, New Mexico

Stuart Becker, New York

Kenneth G. Cadematori, New York

Anthony E. Rapp, New York

Harry F. Reiss, Jr., New York

Eli Werlin, New York

Harris W. Widmer, North Dakota

Lowell A. Baker, Ohio

William B. LaPlace, Ohio

C. Frederick Falldine, Oklahoma

Philip R. Bogue, Oregon

Albert A. Reidinger, Pennsylvania

James H. Wolfe, Pennsylvania

John M. Stover, South Carolina

Daniel R. Hylland, South Dakota

William M. Frazee, Tennessee

Robert R. Arms, Texas

Bruce J. Harper, Texas

Paul W. Hillier, Jr., Texas

Samuel H. Tannebaum, Texas

David R. Coates, Vermont

John R. Fisher, III, Virginia

G. Bernard Smith, Jr., Virginia

Hein Christensen, Virgin Islands

Vern G. Thoreson, Washington

Glenn W. Hall, West Virginia

Leland G. Denis, Wisconsin

Walter L. Throgmorton, Wyoming

For Members of the National Review Board:

(Three years)

Harry J. Baird, Rhode Island
Ralph T. Bartlett, New York
Ben W. Brannon, Georgia
William S. Carter, Pennsylvania

Roy W. Chandler, Oklahoma
John A. Favret, Ohio
Robert C. Kingston, New York
Miles H. Locketz, Minnesota

Jacob J. Rehmann, Michigan
Donald W. Schroeder, California
Omer G. Stephenson, Oklahoma
Stanley H. Voelkel, Texas

The Committee will nominate the above Officers, Members of the Board of Directors, Members of Council-at-Large and National Review Board members on the floor of the Council Meeting on Saturday, October 13, 1979, in New Orleans, Louisiana. No nominations from the floor will be recognized. However, independent nominations may be made by any twenty members of Council if filed with the Secretary at least four months prior to the Annual Meeting of the Institute which is to be held in New Orleans on October 13, 1979.

Pursuant to the bylaws, balloting for directly elected Council members by members in any state where vacancies shall arise will occur only if a contest for one or more seats develops as a result of submission of independent nominations to the Secretary by any twenty Institute members in the state at least four months prior to October 13, 1979. In the absence of any contest, all Council nominations will be declared elected by the Secretary and will assume office as Members at the Council Meeting on October 13, 1979.

Respectfully submitted:

Nominations Committee

Stanley J. Scott, Texas, *Chairman*
Lowell A. Baker, Ohio
Bernard Barnett, New York
Willard G. Bowen, Colorado
John F. Cerny, Wisconsin
Sam I. Diamond, Jr., Alabama
Donald W. Schroeder, California

NOTICE OF AICPA PUBLIC MEETING

Accounting Standards

The AICPA's accounting standards executive committee will hold an open meeting on April 18-19 at the Institute's New York offices from 2:00 p.m. to 5:00 p.m. on April 18 and from 9:00 a.m. to 5:00 p.m. on April 19.

April 18 — p.m.

- ☐ Hospital Related Organizations. (Consider draft for exposure.)
- ☐ Bank Loan Losses. (Discussion of preliminary draft.)

April 19 — a.m.

- ☐ Financial Reporting and Changing Prices. (Report of task force.)
- ☐ Lease Renewals or Extensions. (Report of task force.)

April 19 — p.m.

- ☐ Accounting for Government Grants. (Discussion of preliminary draft.)
- ☐ Broadcasting Interest Imputation. (Discussion of preliminary draft.)

The next scheduled meeting of the committee is May 22-24 in Chicago.

Changes from this notice will be reported by the meetings information telephone service. The number is 212/575-5694.

**FASB To Hold
Conference on
Inflation Effects . . .**

The Financial Accounting Standards Board will hold a national conference on reporting the effects of inflation next month in New York. The conference, to be held May 31 at the New York Sheraton Hotel, will be highlighted by speeches by Dr. Paul W. McCracken, former chairman of the President's Council of Economic Advisors, and Harold M. Williams, chairman of the SEC.

Panel discussions are planned on the effects of changing prices and their impact on management decisions as well as on the effects of changing prices on investment, credit and other decisions from the perspectives of external users of financial information. Reports will also be heard from the six special task forces set up by the FASB recently to study the problems in measuring the effects of inflation which are unique to specific industries (see January 22 Letter).

Price is \$150, including luncheon. For further information on the conference, contact Charles J. Evers at the FASB.

**. . . and Names
Task Force
to Reconsider
FAS no. 8**

The FASB also appointed a 14-member task force to advise the board in its project to reconsider its Statement no. 8, *Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements*.

Most of the task force is drawn from representatives of international corporations and banks. Three CPA practitioners named are Clifford E. Graese, Peat, Marwick, Mitchell & Co.; William P. Hauworth II, Arthur Andersen & Co.; and Donald J. Hayes, Arthur Young & Company.

The FASB will take a dual approach to reconsidering foreign currency translation. On a concurrent basis, it will:

- ☐ Consider proposals to adopt a current rate method.
- ☐ Consider proposals to modify some of the requirements of the statement, such as the translation rate for certain balance sheet accounts, deferral of translation gains and losses, and presentation and disclosure issues.

At its first meeting on March 30, Mr. Hayes led a discussion of various methods related to the current rate method.

**Peer Review
Committee
Establishes Five
Task Forces**

The peer review committee of the private companies practice section of the Institute's division for CPA firms has established the following task forces:

- ☐ *Peer Review Guidelines Task Force* — This group is charged with developing guidelines to assist reviewers in performing regular peer reviews. It will also consult with the Institute's CPE division with respect to developing training materials regarding peer review. Chairman is Morris I. Hollander, Rachlin & Cohen, Coral Gables, Florida.
- ☐ *State Society and Association Qualifications Task Force* — This group will work on developing and maintaining a program to approve state society and association participation in the program. Chairman is Noel D. Thorn, McKnight Frampton Buskirk and Co., Charleston, South Carolina.
- ☐ *Sample Report — Adhoc Committee* — This group is charged with developing sample reports with modified opinions so that reviewers will have guidance in drafting reports. Chairman is Lawrence D. Berdon, Postlethwaite Netterville Evans and Major, Baton Rouge, Louisiana.
- ☐ *Task Force to Monitor Review* — This group will monitor reviews to determine the following: what pattern there is to deficiencies of firms; what problems reviewers encounter and create; and financial problems in reviews. Chairman is Dennis R. Carson, Eide, Helmeke, Boelz & Pasch, Sioux Falls, South Dakota.
- ☐ *Administrative Task Force* — Chairman is Philip W. Presnell, Presnell Gage & Co., Lewiston, Idaho.

Washington Briefs

The Institute's federal tax division recently testified at the carryover basis hearings held by the Senate Finance Taxation and Debt Management Subcommittee. Although the AICPA neither supports nor opposes carryover of basis, it is opposed to the carryover provisions currently in the Internal Revenue Code. One free copy of the Institute's testimony is available by contacting the Washington office (202/872-8190) and requesting Document 3-1.

The Internal Revenue Service, in IR-2104, said that new legislation has required additional information to be reported by partnerships to their partners, electing small corporations to their shareholders, and estates and trusts to their beneficiaries. Those needing more time to file tax returns may request extensions of time by filing Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns.

ERISA regulations have imposed disproportionately greater costs on smaller businesses than larger businesses in 1977, according to a regulatory cost study issued by the Business Roundtable. *The Cost of Government Regulation Study* surveys the direct incremental costs incurred by 48 businesses in complying with the regulations of six federal agencies during 1977. A summary of the study may be obtained free of charge by writing the Business Roundtable, 1801 K Street, N.W., Suite 821, Washington, D.C. 20006.

The IRS Commissioner's Advisory Committee has expressed concern regarding certain IRS special audit techniques that have been developed during the last several years. These procedures include:

- ☐ The "five questions" technique, used to identify corporate slush funds.
- ☐ Field agents' questionnaires, developed independently, that must be answered "under penalty of perjury."
- ☐ The use of purchased mailing lists of taxpayers who are professionals to cross-check whether returns have been filed by the addressees.

The Council on Wage and Price Stability has issued its anti-inflation standards for financial institutions permitting them to either limit their rate of return on assets or limit the rate of return on equity. The standards went into effect March 22, but the council is asking for public comments through April 27. The council also released several other documents, including a nine-month standard for price increases. For further information, see the March 23 *Federal Register*.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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Vol. 59 No. 8
April 23, 1979

The CPA Letter

A Semimonthly News Report Published by the AICPA

FASB to Modify Reporting of Sales to Government

The Financial Accounting Standards Board recently issued an exposure draft, *Disclosure of Information About Major Customers*, which proposes certain changes to its Statement no. 14, *Financial Reporting for Segments of a Business Enterprise*. The proposal would modify the reporting requirements for sales to government customers.

At present, Statement no. 14 requires disclosure when sales to all domestic or foreign governments total 10 percent or more of an entity's total revenues. The proposed amendment would require disclosure from each source of the amount of sales to the federal government, a state or local government, or to a foreign government, when the sales to any of them amounted to 10 percent or more of total revenue.

Comments are due by May 29. Up to five copies of the draft are available free, until May 29, from the Publications Department, FASB, High Ridge Park, Stamford, Conn. 06905.

In another matter, the board has appointed a 14-member task force on the funds flows and liquidity project, which is part of the conceptual framework for financial accounting and reporting. Chairing the group is Bryan Carsberg of the board's staff.

Two Drafts on Quality Control Exposed

The AICPA recently issued two exposure drafts relating to quality control. One is a proposed statement on auditing standards entitled *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards*; the other a proposed statement on quality control standards entitled *System of a Quality Control for a CPA Firm*.

The proposed SAS supersedes SAS no. 4, *Quality Control Considerations for a Firm of Independent Auditors*, which identifies certain considerations — referred to as elements of quality control — that apply to all CPA firms. The draft recognizes the authority of the Institute's quality control standards committee while making clear that (1) existing standards are being maintained and (2) quality control policies and procedures that a CPA firm establishes may affect the conduct of individual audit engagements. It also describes the relationship of auditing standards to quality control standards and provides that a CPA firm should establish quality control policies and procedures to provide it with reasonable assurance of conforming with generally accepted auditing standards.

The proposed statement on quality control standards is a reissuance of an exposure draft issued last year (see August 1978, *Letter*), which, among other things, provided that a CPA firm shall have a system of quality control for its auditing and accounting and review services. The key change in this new proposal is that it incorporates the elements of quality control identified in SAS no. 4 into the body of the statement.

Comments on both drafts are due by June 18, 1979. Comments on the proposed SAS should be directed to the Institute's auditing standards division, while comments on the proposal on quality control standards should go to the AICPA's quality control review division.

SEC Adopts Simplified Registration Form

The Securities and Exchange Commission has adopted a simplified registration form aimed at making the process of raising cash by offering securities for public sale easier and less expensive for small businesses. Form S-18, which the SEC called experimental, may be used by corporations not subject to continuous reporting requirements — those companies with \$1 million or less in assets and under 500 shareholders. The new form calls for less extensive disclosure than Form S-1 which is filed by most corporations.

In another recent action, the SEC issued Staff Accounting Bulletin 29, which provides that material changes in earnings per share amounts as a result of factors other than changes in net income, such as an issuer's purchase of its own securities, should be included in management's discussion and analysis of earnings. The suggested disclosure should include the effects of such transactions on the trend of reported earnings of the issuer in total and per share, and any increased leveraging.

Also, in Rel. 33-6040, the commission released its regulatory agenda, listing anticipated major rule-making and regulatory matters likely to be considered during the balance of the year. Among the areas of interest are: tender offer rule proposals; going "private"; corporate governance, "safe-harbor" rules for certain management projections; management reports; reports on internal control; and report on the accounting profession (its second annual report is expected in July).

SEC to Establish Small Business Office

SEC Chairman Harold M. Williams recently announced the establishment of an Office of Small Business Policy within the commission's division of corporation finance. The office, said Williams, "will be the focal point for small business within the division." Among the office's functions will be developing and assisting in development of rules and regulations designed to aid capital formation.

Speaking at a regional session of the White House Conference on Small Business, held in New York earlier this month, Williams stressed the importance of small business in the national economy, but noted that this "unique contribution smaller companies have historically made . . . is in jeopardy unless we develop solutions to their capital formation problems."

The New York conference is one of 12 regional conferences and 45 open forums being held nationwide to study major topics of interest to small businessmen. President Carter has called for a White House Conference on Small Business in January 1980 to discuss the elements raised at these sessions. It will be attended by delegates elected from these meetings. To date, 15 AICPA members have been chosen.

Among the many ideas and suggestions proposed are the following:

- ☐ Establish a mini-stock exchange which would make a market for shares of small businesses.
- ☐ Provide a tax credit for capital invested in small businesses.
- ☐ Require government regulators to answer inquiries within 45 days and in plain English.
- ☐ Do a better job of training enforcement and inspection officials.

For further information on the conferences, contact David S. Smoak, executive director, White House Conference on Small Business, 730 Jackson Place, N.W., Washington, D.C. (202/456-7146).

Forums Set for Views on Smaller Firms

At its meeting earlier this month, the special committee on small and medium-sized firms approved three techniques for getting members' views on factors that affect the competitive position of the smaller CPA firm. Headed by Samuel A. Derieux of Virginia, the committee is considering the future viability and prospects of small and medium-sized firms. An interim status report will be presented prior to the AICPA annual meeting in October. Formal membership participation is sought through the following means:

- ☐ *Member Forums* — Following the techniques previously developed for discussing other basic issues, state societies of CPAs have been asked to schedule small group meetings, utilizing a response form approved by the committee. The basic areas covered are client development practices, firm reputation, recruiting and retaining staff, types and quality of service, firm operations and finances, and professional structure and standards. Members who are unable to attend the state society forums (so far, 29 states are participating) may get copies of the response form from Jim Flynn at the AICPA.
- ☐ *Council Meeting* — Members of council will utilize the member forum questionnaire in break out sessions during the May meeting.
- ☐ *Public Hearings* — The committee will schedule public hearings at convenient locations in various parts of the country this fall. The results of the forums and contributions from other sources will be used as the basis for the hearings.

NAARS Expands Data Base

The Institute's National Automated Accounting Research System (NAARS), a computerized retrieval system which can yield a variety of information from the published annual reports of over 4,000 companies, has recently expanded its data base.

The system now includes samples of certain proxy statement disclosures which include details of executive compensation, including "perks," relationships between directors and management, and fees charged by independent accountants for nonaudit services. Management responsibility letters on financial statements have been added to the annual report file.

AICPA members and others who have only an occasional use for a search need not have their own terminals. The AICPA staff will do the research and supply a printout on a fee basis. This supplements the existing subscriber programs. For information, contact Hortense Goodman at the Institute.

Joint Ethics Conference Scheduled

The AICPA's professional ethics division has set November 19 and 20 in St. Louis for the 1979 National Joint Ethics Conference. Designed for state society executive directors and ethics committee chairmen, the annual conference seeks to promote uniformity in the application and enforcement of the *Code of Professional Ethics*.

FASB to be Responsible for Specialized Standards

At a recent meeting, the Financial Accounting Standards Board took the following actions regarding certain AICPA publications:

- ☐ Agreed in principle to exercise responsibility for the specialized accounting and reporting standards contained in AICPA Industry Accounting and Audit Guides and statements of position that modify or supplement those guides. This would be done by extracting the accounting and reporting standards from the guides and related SOPs and issuing them as FASB statements.
- ☐ Agreed to consider a policy statement indicating that, until FASB adoption, the board considers the specialized accounting and reporting standards in these guides and related SOPs to be generally accepted accounting principles and preferable accounting principles for purposes of applying APB Opinion no. 20, *Accounting Changes*.

**FASB Amends
Statement on
"Sales-type"
Leases**

The FASB has issued Statement no. 26, *Profit Recognition on Sales-Type Leases of Real Estate*, which amends Statement no. 13, *Accounting for Leases*. It requires that a lessor classify a real estate lease, that would otherwise be treated as a "sales-type" lease, as an operating lease unless the conditions of the AICPA Industry Accounting Guide, *Accounting for Profit Recognition on Sales of Real Estate*, for full and immediate profit recognition are met. Such a sales-type lease must result in a manufacturer's or dealer's profit. The statement does not affect the classification of a sales-type lease that results in a "sales-type" loss nor does it affect the classification of a direct financing lease.

Except for the effective date, which is now August 1, 1979, the statement is essentially the same as the exposure draft issued late last year.

Copies of the statement are available at \$1.50 from the FASB.

**FASB to Hold
Open Meetings on
Specific Industries**

In line with its project on financial reporting and changing prices, the FASB recently announced that a series of open meetings will be held next month to address the unique problems of measurement in certain industries. Previously (see January 22 Letter), the board had appointed task forces in six specific industries. The meetings will be held as follows, starting at 9:30 a.m.:

- ☐ May 8-9 — Banking — the Hilton Hotel in New York.
- ☐ May 11 — Insurance — the McCormick Inn in Chicago.
- ☐ May 14-15 — Forestry products — the Sheraton Center in New York.
- ☐ May 16-17 — Real Estate — Halloran House in New York.
- ☐ May 18-19 — Mining — Halloran House.
- ☐ May 22 — Oil and gas — the Hyatt Regency in New York.

Reports from these meetings will also be heard at the FASB's national conference on reporting the effects of inflation, to be held May 31 in New York (see April 9 Letter). In addition, a general public hearing has been scheduled by the FASB for June 6-8 in New York on financial reporting and changing prices. The board plans to issue a final statement by September 30 that would be effective for calendar year 1979.

**Proposed
Interpretation
to Clarify
Involuntary
Conversions**

The FASB has released a proposed interpretation for comment that would recognize as a gain or loss the difference between an asset's cost and the amount of insurance proceeds received whether or not the proceeds were used to replace inventories, equipment or other nonmonetary assets that are stolen or destroyed.

The proposal, *Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets*, is an interpretation of APB Opinion no. 29, *Accounting for Nonmonetary Transactions*, and would also require recognition of gain or loss when the government condemns property under powers of eminent domain.

Comments are due by June 15. Copies of the proposed interpretation are available from the FASB office.

**Bills Introduced
to Clarify
"Independent
Contractor"**

Legislation that would clarify the definition of "independent contractor" for tax purposes has been introduced recently. HR 3245 was introduced by Representative Richard Gephardt (D-Mo.), and S. 736 by Senator Robert Dole (R-Kan.). These bills would provide that an individual be classified as an independent contractor if all the following conditions are met:

- ☐ Control of working hours and schedule.
- ☐ Does not have a main place of business provided by a person for whom services are performed or rent is paid if so provided.
- ☐ Substantial investment in assets or risks income fluctuation because compensation relates to sales or other output.
- ☐ Written contract setting forth independent contractor status.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting and Review Services — An open meeting of the accounting and review services committee will be held in Phoenix on May 10-11 from 9:00 a.m. to 5:00 p.m. at the Adams Hotel.

May 10 — a.m. ☐ Reporting on Comparative Financial Statements. (Consider draft for exposure.)

May 10 — p.m. ☐ Reporting on Comparative Statements. (Continued.)

☐ Clarification of Independence Interpretation. (Preliminary discussion.)

May 11 — a.m. ☐ Subsequent Discovery of Facts Existing at Date of Compilation or Review Report. (Preliminary discussion.)

May 11 — p.m. ☐ Reporting on Financial Information Presented on Prescribed Forms. (Preliminary discussion.)

Auditing Standards — The auditing standards board will hold an open meeting on May 15 and 16 in the board room at the AICPA New York office. Sessions will be from 9:00 a.m. to 5:00 p.m. The agenda items will be reported by the telephone service.

An open meeting of the auditing standards advisory council will be held in the AICPA board room in the New York office on May 17 from 9:30 a.m. to 5:00 p.m.

Morning Session ☐ Auditor Involvement with Required Supplemental Information. (Report of task force.)

☐ Reporting on Internal Accounting Control. (Report of task force.)

Afternoon Session ☐ Auditors' Reports. (Report of task force.)

AICPA Council — The council of the AICPA will hold an open meeting on May 7-9 at the Arizona Biltmore Hotel in Phoenix from 9:00 a.m. to 1:00 p.m. each day.

Monday, May 7 ☐ Election to Fill Council Vacancies.

☐ Report of the Effective Legislation Committee.

☐ Designation of Accounting and Review Services Committee to Promulgate Standards Under Rule 204.

☐ "Carryover Basis" Report from the Federal Taxation Division.

☐ Comments by Chairman of the Special Committee on Small and Medium-Sized Firms.

Tuesday, May 8 ☐ Views From the Financial Accounting Standards Board.

☐ Proposal to Bring Standards for Information in Financial Reports Outside Financial Statements Under Rule 204.

☐ Views from the Public Oversight Board.

Wednesday, May 9 ☐ Report of the Nominating Committee.

☐ Status Report on the Progress of the AACSB Accounting Accreditation Planning Committee.

☐ Developments in Accounting and Auditing (Panel).

Federal Taxation — Open meetings of the federal tax division executive committee will be held in Washington, D.C., on May 20 from noon till 5:00 p.m. and on May 23 from 9:00 a.m. to 5:00 p.m. at the Capital Hilton Hotel.

May 20 — p.m. ☐ Legislative Recommendations on Tax Law Changes. (Discussion of preliminary draft.)

May 23 — a.m. ☐ Indexation. (Report of task force.)

☐ Small Business Taxation Legislative Recommendations. (Report of task force.)

☐ Tax Policy Statement on "Taxation of the Formation and Combination of Business Enterprises." (Consider draft for publication.)

☐ Activities Regarding Carryover Basis. (Discussion of report.)

May 23 — p.m. ☐ Consideration of Position Regarding Sunset Legislation. (Report of task force.)

☐ Consideration of Position Regarding Unreported Taxable Income. (Report of task force.)

☐ Consideration of Position Regarding Withholding on Dividend and Interest Income. (Report of task force.)

Professional Ethics — The professional ethics executive committee will hold an open meeting in the AICPA board room in the New York office on May 22 from 9:00 a.m. to 5:00 p.m.

Drafts to be considered for exposure are Proposed Interpretation 101-8, Investor-Investee Relationships; Proposed Ethics Ruling under Rule 101, Member and Audit Client are Limited Partners in a Limited Partnership.

Drafts to be considered for publication are Proposed Revision of Interpretation 502-2, False, Misleading or Deceptive Acts; Proposed Revision of Interpretation 502-4, Self-designation as Expert or Specialist; Proposed Ethics Ruling under Rule 504, Location of Separate Business; Proposed Ethics Ruling under Rules 502 and 505, Data Processing — Billing Services.

Proposed deletions are Interpretation 502-3, Other Forms of Solicitation; all Ethics Rulings under Sections 491 and 591 that were "suspended" on March 31, 1978; and deletion or amendment of Ethics Ruling under Rule 502, Announcement of Member's Withdrawal from Firm.

Management Advisory Services — The MAS executive committee will hold an open meeting in New York on May 15 starting at 10:00 a.m. in the offices of Price Waterhouse & Co., 1251 Avenue of the Americas.

Among the topics to be discussed are a proposed information booklet on MAS for members of audit committees and boards of directors and initial plans for further efforts to provide the public with information on MAS by CPAs. Other agenda items will be reported by the telephone service.

Changes from these notices will be reported by the meetings information telephone service.
The number is 212/575-5694.

Washington Briefs

President Carter recently sent Congress a series of legislative proposals aimed at establishing "a framework for private and government activity to prevent privacy abuses" and at halting the indiscriminate use of data stored by computers. Among the topics covered by the proposals are medical files, financial information, research and statistical data, and prohibition of searches and seizures of "work products." Many of the proposals stem from recommendations made in 1977 by the Privacy Protection Study Commission.

Also, administration officials announced that legislation entitled "The Fair Financial Information Practices Act" will soon be introduced to expand current laws on consumer credit, banking records and electronic funds transfer services (EFTS). The bill is expected to cover, in part, consumer reporting agencies, credit grantors and insurance companies, as well as EFTS.

President Carter's plan for reform of federal regulation was introduced in Congress recently by Senator Abraham Ribicoff (D-Conn.). The bill, "The Regulatory Reform Act of 1979" (S. 755), attempts to eliminate needless regulation, increase public participation in rulemaking and make various improvements in the Administrative Procedures Act.

IRS Commissioner Jerome Kurtz announced recently that the agency has begun a study of the "subterranean" economy, focusing on unreported income. Also, the IRS will study tax form simplification and the tax treatment of independent contractors. Speaking in Washington, Kurtz added that the agency now has a three-year backlog in issuing regulations implementing recent tax law changes.

The Tax Council has issued the first two reports in a new series of working papers on topical issues in the tax policy field. The first two reports deal with the sunset concept as well as sunset and tax expenditures. Contact The Tax Council, Suite 903, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009.

The Government Accounting Office has issued a booklet, *Auditing Computer-Based Systems*, which contains additional standards for audits of governmental entities. These standards supplement the basic standards set forth in the 1972 GAO publication, *Standards for Audit of Governmental Organizations, Programs, Activities and Functions*. Copies of the new guidelines (S/N 020-000-00174-7) are \$1.10 each from the Government Printing Office, Washington, D.C. 20402.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.

The CPA Letter

A Semimonthly News Report Published by the AICPA

Board of Directors Actions

At its meeting on May 4, the AICPA's board of directors took these actions:

- ☐ Resolved that financial accounting standards for state and local governments should be established in the private sector by the Financial Accounting Standards Board or a companion board established by the Financial Accounting Foundation. It called for the appointment by the FAF of a special study group of interested parties to develop a proposal for implementation by the FAF.
- ☐ Authorized a loan of up to \$250,000 at prevailing interest rates to the SEC practice section if a cash flow problem develops in the section during the remainder of this year.
- ☐ Authorized the Institute to enter into an agreement with the Hertz Rent-A-Car Company to provide a discount to members of 30% of standard rental rates at no cost to the Institute.
- ☐ Reviewed a proposal by Accountants for the Public Interest to join with it in exploring a profession-wide volunteer accounting program. The board reaffirmed its previous position that pro bono work should be organized on a local level.
- ☐ Approved a modified policy statement on the jurisdiction of the accounting and review services committee and the auditing standards board on the board's position that the ASB standards apply to any entity that is a public company or under the control of a public company.
- ☐ Recommended to Council, at the request of the executive committees of the private companies practice section and the SEC practice section, the publication of a directory of members of the division for firms without distinction as to which section they belong to. This would start in July 1980. (Adopted by Council on May 7 with the proviso that the board of directors determine the frequency of amendments to the directory).

Council Places Accounting and Review Standards Under Ethics Code

At its opening session on May 7, the AICPA's governing council agreed that the accounting and review services committee should be designated a body to promulgate standards under Rule 204 of the ethics code. Under this rule, departures from the technical standards promulgated by the designated bodies must be justified by those that do not follow them.

Four new members of council, proposed by their state societies, were elected to fill vacancies. They are as follows: A. Rick D'Arcangelo, New York, replacing Joseph S. DePaolo (resigned); Philip H. Dohn, Jr., Georgia, replacing Jack C. Favors (deceased); Dennis Mitchem, Arizona, replacing Ron Evensen (moved out of state); Todd Smith, Guam, replacing Allen A. Pickens (unable to attend meetings).

Council members heard several committee reports and participated in breakout sessions, during which members provided their views to the special committee on small and medium-sized firms on the future prospects of these firms.

Among other matters scheduled for discussion at later sessions was the AICPA response to the FASB standard on disclosures of financial information outside financial statements.

SEC Issues Proposals on Internal Control Reporting

At an open meeting late last month, the Securities and Exchange Commission approved in principle a proposal which would require management to include a statement on internal accounting control in certain SEC filings and in annual reports to shareholders. The rules, designed to reinforce the accounting requirements of the 1977 Foreign Corrupt Practices Act, provide for a two-step implementation process:

- ☐ Phase 1, for fiscal years ending between December 15, 1979 and December 15, 1980, would require management to state whether its internal accounting control system, as of the final day of its fiscal year, was sufficient to assure compliance with the law. Also, the proposal would require management to disclose any uncorrected material weaknesses brought to its attention by the outside auditors.
- ☐ Phase 2, for fiscal years ending after December 15, 1980, requires more stringent disclosure. Management would have to comment on the adequacy of its internal control system for the entire fiscal year, rather than as of fiscal end. Auditors would also be required to issue an opinion on management's report on internal accounting controls.

The proposals are set forth in Release no. 34-15772. Comments are due by July 31, and should be directed to the SEC, 500 North Capitol Street, Washington, D.C. 20549.

International Guidelines for Audit Engagement Letters Exposed

The International Federation of Accountants (IFAC) has issued for public comment an exposure draft of an international auditing guideline, *Audit Engagement Letters*.

According to the guideline, such letters are designed to document and confirm the auditor's acceptance of the engagement, scope of work, extent of his responsibilities and the form of any reports. Factors to be considered are presented and a sample letter is included.

Copies are available from the AICPA's order department. Comments should be submitted by September 30 to Thomas Kelley at the Institute.

Recent AcSEC Actions

At its meeting last month, the AICPA's accounting standards executive committee took the following actions:

- ☐ Agreed to send to the FASB, after revision for AcSEC suggestions, an issues paper on accounting for allowances for losses on certain real estate and loans and receivables collateralized by real estate, together with a proposed draft of a revision of the audit and accounting guide on *Audits of Banks*.
- ☐ Agreed to send to the FASB, after revision for AcSEC suggestions, letters of comment on *Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases, Financial Reporting and Changing Prices, and Constant Dollar Accounting*.
- ☐ Approved to reexpose for public comment, after revision for AcSEC suggestions and review by the FASB, a proposed statement of position on *Clarification of Reporting Practices Concerning Hospital Related Organizations*.
- ☐ Discussed a preliminary draft of an issues paper on *Accounting for Grants Received from Governments* and asked that a revised draft be presented at a future meeting.

AICPA SERVICES

The following list provides the direct telephone numbers for principal AICPA services and staff activities. Please retain it for prompt service on your inquiries.

Most Frequently Requested Services

Continuing Professional Education

Individual Study Courses
Ordering

(212) 575-6426
5524

Other information
In-house programs and
General CPE Information

7644

Insurance and Retirement Programs

Members' Retirement Plan, Group Life
and CPA Plans
Liability Insurance

6385
3852

For specific information on
administration of the plans, policies,
premiums or refunds:

Liability Plans:

Rollins Burdick
Hunter Co.
toll free (800) 221-4722
[RBH] (212) 661-9000

Life and Retirement Plans:

Library Services

(212) 575-6322

Membership Records (including address changes)

Professional Ethics

Behavioral Standards
Technical Standards

6421

Publication Sales and Other Orders

Account Balances, Payments,
Receivables and Refunds
Circulation — Magazines
Order Department — Miscellaneous
Publications

6299
6214

Technical Information Service*

Principal Staff Activities

Activity

Staff

Number

Division for CPA Firms

Quality Control Review
Private Companies Section
SEC Practice Section

Ted Felix
John Mitchell
Thomas Kelley

(212) 575-6396
6359
6656

Examinations

Mitchell Rothkopf

6495

Activity

Staff

Number

Government Relations
Federal Government Relations
Federal Legislative Affairs

(202) 872-8190
8190

Joseph Moraglio
Nicholas Nichols

General Counsel and Secretary
Information Retrieval (NAARS)
International Relations
International Standards
(Technical)

(212) 575-6469
6393
6471

Donald Schneeman
Hortense Goodman
Donovan Roberts

Management of an Accounting
Practice

6368

Paul Rosenfield

Meetings and Travel
Practice Review

6436
6442
6290

Nancy Myers
Douglas Heath
Beatrice Melcher

Publications (Editorial)
Journal of Accountancy

6272

Lee Berton

Newsletters
CPA Client Bulletin
The CPA Letter
The Practicing CPA
The Tax Adviser

6274
6277
6273
6278
6314

Roderic Parnell
George Maxwell
Stephen Collins
Graham Goddard
Eugene Linett

Regulation

Professional Ethics
State Legislation
Joint Trial Board

6209
6210
3852

Herbert Finkston
William Crane
William Tamulinas

Relations with Members and
Other Groups

6436

Nancy Myers

Member Relations

6440

Mario Ahmad

Small Business
Development

Minority Recruitment and
Equal Opportunity

7641

Sharon Donahue

Public and State Society
Relations

3877
6357

Bradford Smith
James MacNeill

Relations with Educators

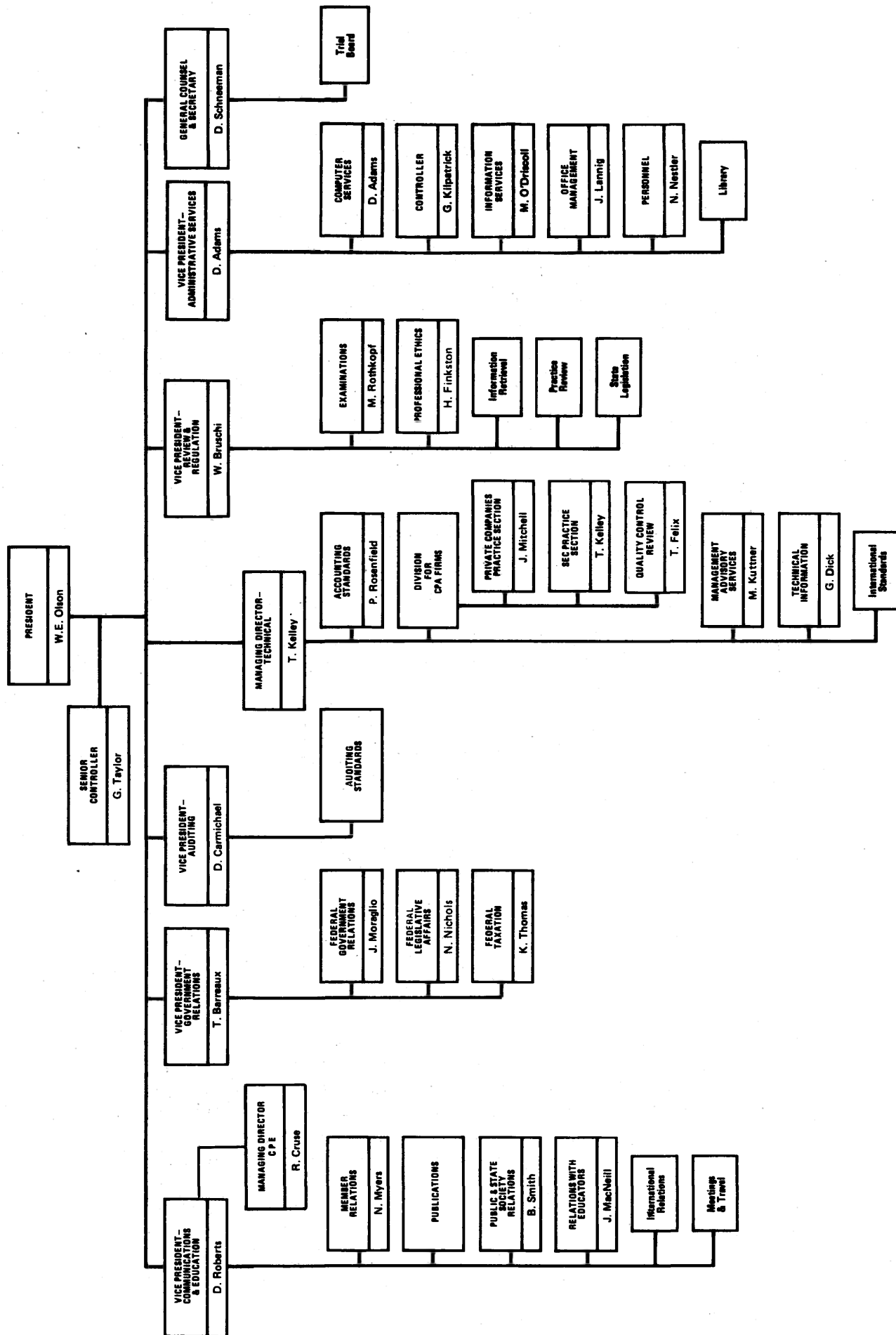
Technical Standards*

Accounting Standards
Auditing Standards
Computer Services
Federal Taxation
Management Advisory
Services

6368
6372
6296
(202) 872-8190
(212) 575-6363

Paul Rosenfield
D. R. Carmichael
Donald Adams
Kenneth Thomas
Monroe Kuttner

*Note: Inquiries on publications sent to members
should be referred to the Order Department and not to
the divisions issuing them. Also, all technical questions
should be directed to the Technical Information Service.



**One AICPA Member
Expelled; Four
Suspended**

The following actions have been taken by the Institute under the automatic disciplinary provision of its bylaws:

- ☐ On March 15, 1979, the membership of Robert D. Rowan, Detroit, Michigan, was terminated following his felony conviction for conspiracy to defraud the U.S. Government of excise tax.
- ☐ The Institute first learned in late February that the certificate of Gary Forst, Coral Springs, Florida, had been suspended from June 26, 1978 to December 26, 1978 by action of the Florida State Board of Accountancy. Mr. Forst's certificate was suspended for violating the state's statutes and administrative code by failing to comply with GAAP and GAAS and by permitting another, who was not in partnership with him or in his employ, to practice in his name. AICPA records will show the suspension of his membership for the period his certificate was suspended.
- ☐ On March 23, 1979, the memberships of the following AICPA members were suspended coincident with the indefinite suspension of their CPA certificates by the Florida State Board of Accountancy for failing to comply with the state's continuing education requirements:
 - Warren Cy Freistat, North Miami Beach.
 - Max William Mitchell, Tampa.
 - Howard Oxford Phillips, Crescent City.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

An open meeting of the accounting standards executive committee will be held in Chicago at the Marriott Downtown Hotel in Chicago on May 23-24 from 9:00 a.m. to 5:00 p.m. each day.

May 23 — a.m.

- ☐ Finance Companies Guide. (Preliminary discussion of subject.)
- ☐ Accounting by Lease Brokers. (Discussion of preliminary draft.)

May 23 — p.m.

- ☐ Accounting by Lease Brokers. (Discussion continued.)

May 24 — a.m.

- ☐ State and Local Government Accounting. (Discussion of preliminary draft.)

May 24 — p.m.

- ☐ Imputation of Interest by Broadcasters. (Discussion of preliminary draft.)
- ☐ Involuntary Conversions. (Discussion of preliminary draft.)

The next scheduled meeting of the committee is on July 10-12 in New York.

Board of Examiners

The AICPA's board of examiners will hold an open meeting on June 1 at the Institute's Washington office from 10:00 a.m. to 12:00 noon.

Preliminary discussion of the following subjects will take place:

- ☐ Clarification of candidate knowledge required of specialized pronouncements, for example, audit guides and AICPA statements of position.
- ☐ Possible expansion of business law subject content effective for the November 1979 and succeeding examinations.

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Greater Role Seen for Accountants in Future

In light of growing demand for full accountability at all levels of society, the accounting profession is likely to assume a more expanded role in the future, "well beyond its present preoccupation with financial statements." Speaking at the Sixth National Congress of Chartered Accountants (South Africa), in Cape Town late last month, Institute President Wallace E. Olson noted that "the broad demand for accountability has become so pronounced that it is almost certain to be a major influence in shaping the future of our profession."

To fill this future role, the profession "will have to exercise the courage to accept greater responsibilities that involve making judgments which are substantially more subjective than those in the past," he added. If we accept this challenge, he said, we may expect, also, a continuing responsibility as important advisors to government and in analyzing actions that are taken to meet the demands of special interest groups and less developed countries for a more equal distribution of wealth.

If accountants shrink from accepting these responsibilities, "we will have lost an opportunity to make a vital contribution and to greatly enhance the stature of the profession," concluded Mr. Olson.

Industry and Government Conference Set

The AICPA will hold its fourth annual National Conference for Members in Industry and Government on October 5 in Dallas. Designed to meet the special interests of this portion of the membership, the program will include the following topics, among others:

- ☐ AICPA Programs for Industry and Government Members — William R. Gregory, incoming chairman of the AICPA.
- ☐ Current Corporate Reporting Practices — A. Clarence Sampson, SEC chief accountant; Leonard M. Savoie, chairman, AICPA reports by management special advisory committee; Arthur R. Wyatt, chairman, AICPA accounting standards executive committee.
- ☐ Time Management for Executives — Dr. Thomas Porter, Jr., Touche Ross & Co.

Further details will be forthcoming. In the meantime, contact Barry Kuchinsky at the AICPA for information.

Carey Scholarship Awarded

Elizabeth Kundin has been named the winner of the John L. Carey Scholarship for 1979. The annual \$3,000 scholarship, named after the AICPA's former executive vice president, is granted to a Yale University senior who is planning to do graduate work in accounting with the intention of a career in professional accounting.

Ms. Kundin is enrolled in the Master of Science in Accounting program at New York University starting this summer and will be employed by Arthur Andersen & Co. While at Yale, she majored in applied mathematics with a specialization in operations research.

The scholarship for last year's winner, Susan P. Rowe, has been renewed.

Audit Research Director Named

Dan M. Guy, CPA, professor of accountancy at Texas Tech University, has been appointed to the new position of director of auditing research at the AICPA.

Dr. Guy, who is currently on leave from Texas Tech as a visiting professor at the University of Texas at Austin, will join the staff on June 1.

The position is part of the restructuring process that led to the creation of the auditing standards board. Dr. Guy will supervise the research required by the board and oversee the preparation of industry audit guides.

After earning his bachelor's and master's degrees at East Carolina University, Dr. Guy received his Ph.D. at the University of Alabama. He has served on the audit staffs of major accounting firms and as a consultant.

First National PCPS Conference Held

The private companies practice section of the Institute's division for CPA firms held its first national PCPS conference April 30-May 2 in Reno. More than 500 practitioners attended — 84 percent of the firms attending had 10 or less partners. The conference focused primarily on peer review, the new compilation and review reporting standards and the status of the small and medium-sized firms confronting increased competition in the marketplace.

Among the conference's highlights were discussions on the reasons for the establishment of the PCPS and its peer review program, a panel discussion on compilation and review, plus speeches by Wallace Olson, AICPA president, William R. Gregory, AICPA vice chairman, and Samuel A. Derieux, chairman of the Institute's committee on small and medium-sized firms.

AICPA Sets Faculty Summer Seminars

Seventy-six accounting educators from 65 predominantly black colleges and universities have been invited to participate in the Institute's Ninth Annual Faculty Seminar to be held May 27-June 1. Sponsored by the AICPA, the sessions will be held in the Hyatt Regency Hotel in Louisville, Kentucky.

The program, which has been developed by the AICPA's committee on minority recruitment and equal opportunity, will include such topics as the standard-setting process in accounting and auditing, motivation, career planning and placement, and certain special aspects of minority education. The banquet speaker will be James E. Cheek, president of Howard University, who will discuss his views on accounting education.

The costs of these seminars are covered by the AICPA. For further information, contact Sharon Donahue at the Institute.

First Line of Business Report Issued by FTC

Following its four-year legal battle, the Federal Trade Commission recently issued its first *Annual Line of Business Report*. The report includes aggregate figures on the sales, expenses and assets of more than 150 American industries; and is based on survey responses from 225 major U.S. manufacturing companies.

The data in the report are from 1973. The FTC delayed publication pending resolution of litigation concerning the commission's right to obtain line of business information. Last November (see November 27 Letter), the struggle ended when the U.S. Supreme Court declined to review a lower court ruling upholding the FTC's right to require submission of this data.

The report contains the first publicly available financial data by uniform industry categories. Categories in the report include, among other things, drugs, motor vehicles, textile products, chemicals and petroleum refining.

Copies of the report are available from the FTC's public reference branch, Room 130, 6th St. and Pennsylvania Ave., N.W., Washington, D.C. 20580.

AICPA Awards Additional Doctoral Grants

Five doctoral candidates have received grants-in-aid in connection with their dissertations in accounting, making a total of seven grants amounting to \$37,500 for the 1978-79 academic year. The recipients are

- ☐ Robin A. Alexander, Northwestern University, \$3,000. Topic: A Simulation Study of the Time Series Properties of Earnings.
- ☐ James C. Gaa, University of Illinois at Champaign-Urbana, \$8,400. Topic: The Methodological Foundations of Public Policymaking for Financial Accounting and Reporting.
- ☐ James S. Holmen, University of Minnesota, \$7,000. Topic: The Use of Forecasting Techniques in Analytical Review for Auditing.
- ☐ Alfred J. Nanni, Jr., University of Massachusetts, \$4,200. Topic: The Auditor's Evaluation of Internal Accounting Control.
- ☐ Nathan Slavin, Baruch College, \$3,000. Topic: The Behavioral Effects of Role Ambiguity and the Independent Auditor.

Washington Briefs

Senator George McGovern (D-S.D.) has introduced mandatory wage and price controls legislation. The bill, S 1022, "Economic Stabilization Act of 1979," would grant the President standby authority to impose controls. Such authority would automatically expire on September 30, 1981. The base period for determining the necessary stabilization of prices, wages, rents and salaries would be April 26, 1979.

The Council on Wage and Price Stability has published a notice which modifies the price standard and adopts certain procedural rules. The CWPS is strengthening the profit-margin limitation, requesting that intermediate-sized companies (\$250-500 million) furnish base period price and margin data, and is amending its exception procedures. The modifications are effective as of April 20, but comments are due until May 31.

The Small Business Administration has withdrawn a previous proposal to raise the size standards for accounting and auditing services from \$2 million to \$5 million. The previous proposed change was issued in June of last year.

The Internal Revenue Service, in Rev. Proc. 79-23, identified certain situations that may warrant the disallowance or termination of a LIFO election and circumstances that don't warrant such actions.

The IRS has proposed rules to guide tax-exempt organizations wishing to waive their exemption from social security coverage, but who have neglected to file a waiver certificate. Comments are due by June 11.

The Justice Department's first civil injunctive proceeding brought under the Foreign Corrupt Practices Act of 1977 was recently settled when two U.S. businessmen agreed to an injunction. The individuals neither admitted nor denied the allegations in agreeing to the consent judgment, which prohibits further violations of the act. The case involved an alleged illegal payment of \$1.5 million to the former director of petroleum affairs for Qatar, a Persian Gulf nation.

The U.S. Court of Appeals for the District of Columbia has ruled that the SEC's decision not to require detailed disclosures in its filings of the environmental impact of corporate activities and job-discrimination matters is within the commission's discretionary powers. In the case, the SEC said that the cost of gathering the data was too high and that the type of information wouldn't interest shareholders.

The CPA Letter

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The CPA Letter

A Semimonthly News Report Published by the AICPA

Council Recognizes FASB Authority on Supplemental Information

At its meeting in Phoenix earlier this month the AICPA council designated the FASB, under Rule 204 of the Rules of Conduct of the *Code of Professional Ethics*, as a body to promulgate technical standards that require specified supplementary disclosures outside financial statements in published financial reports of specified types of entities.

The FASB has decided to include such requirements in the present series of statements of financial accounting standards for two purposes:

- ☐ To segregate from the financial statements required information not considered necessary for fair presentation in conformity with generally accepted accounting principles.
- ☐ To relieve specified types of organizations, mainly small or closely-held companies, of the need to make supplementary disclosures.

An example of possible types of supplementary disclosures outside financial statements is information reflecting changing prices. An exposure draft of the first such requirement, related to changing prices, has already been issued (see March 26 Letter).

The responsibilities of AICPA members regarding the FASB's standards of financial reporting under Rule 204, however, would still need to be specified by the auditing standards board. Therefore the following resolution was adopted:

RESOLVED: That the auditing standards board shall establish under statements on auditing standards the responsibilities of members with respect to standards of disclosure of financial information outside financial statements in published financial reports containing financial statements. For this purpose, the council designates the FASB as the body, under Rule 204 of the Rules of Conduct, to establish standards for the disclosure of such information.

This approach provides formal recognition by council of FASB standards on financial reporting and affirms the authority of the auditing standards board to establish the responsibilities of auditors with respect to disclosures of financial information outside financial statements.

In another action, council elected members of the nominating committee for the division for CPA firms. They are Stanley J. Scott, Alford, Meroney & Co., Texas, chairman; Lowell A. Baker, Meaden & Moore, Ohio; Bernard Barnett, Seidman & Seidman, New York; John F. Cerny, Arthur Young & Company, Wisconsin; Merle S. Elliott, Smith, Elliott, Kearns & Co., Maryland; Donald W. Schroeder, Coopers & Lybrand, California; and Raymond Telling, Telling & Potter, New York.

Council also heard the views from representatives of various related groups such as the FASB, Public Oversight Board, CPA/Society Executives Association, American Accounting Association, and National Association of State Boards of Accountancy. It was brought up to date on the progress of the American Assembly of Collegiate Schools of Business accounting accreditation planning committee, which hopes to take action on a program next spring after exposing its proposals and conducting public hearings. Developments in accounting and auditing were presented by a panel from three senior technical committees.

Oversight Board Issues First Annual Report

The Public Oversight Board, which monitors the activities of the SEC practice section of the AICPA division for CPA firms has issued a report on its first year of operation.

The report reviews and comments on the purpose and structure of the section, as well as the board's activities. These activities were concerned mainly with advising on policy matters regarding the peer review program, monitoring initial peer reviews and preparing and publishing a report on the scope of services provided by CPA firms (see March 12 Letter).

The board concludes that, "due to the substantial progress to date, the strong commitment of the profession and the encouragement and support of the SEC, the section's program for self-regulation will be effective."

Copies of the report have been mailed to all members of the SEC practice section. Free single copies are available from the POB, 1270 Avenue of the Americas, New York, N.Y. 10020. (Additional copies at nominal cost.)

MAP Conferences Set for Summer and Fall

The Institute's sixth annual series of practice management conferences has been scheduled for later this year. Organized and presented by the management of an accounting practice committee, four different two-day sessions will be held. The objective is to analyze key problems of practice management and provide practitioners with techniques and procedures that will lead to greater efficiency and successful growth. The sessions will be conducted in cooperation with the state societies where the conferences are scheduled. The subjects and dates are

- ☐ Practice Growth and Development: San Francisco, July 30-31.
- ☐ People Management: San Francisco, August 2-3.
- ☐ Partnerships: Philadelphia, September 13-14.
- ☐ Firm Management and Administration: Chicago, November 1-2.

Much of the material for these presentations is drawn from the *Management of an Accounting Practice Handbook*, which is currently being updated. The 1979 supplement to the handbook and 1979 revised edition of the handbook are expected to be available by mid-July from the AICPA order department.

For further information on the sessions, contact Barry Kuchinsky at the Institute. Brochures will be mailed to all partners and practitioners.

Draft on Reporting by Governmental Units Exposed

The Institute's committee on state and local governmental units has issued an exposure draft of a proposed statement of position on *Accounting and Financial Reporting by Governmental Units*. The proposal would amend the AICPA industry audit and accounting guide, *Audits of State and Local Governmental Units*, to recognize the National Council of Governmental Accounting's recent Statement no. 1, *Governmental Accounting and Financial Reporting Principles*, as an authoritative modification of the NCGA's 1968 publication, *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR). The AICPA's guide had previously recognized GAAFR as an authoritative source in the area of accounting for local governmental units.

If adopted, the statement would be effective for financial statements and auditors' reports for years ending after June 30, 1980.

Comments are due by July 21, and should be directed to Paul Rosenfield at the Institute. Copies are available from the AICPA order department.

Bill to Set Municipal Disclosure Standards Is Ready

Legislation which would, for the first time, establish uniform accounting and financial reporting practices of state and local governments was to be introduced by May 25 by Senator Harrison Williams (D-N.J.). The bill, entitled *State and Local Government Accounting and Financial Reporting Standards Act of 1979*, proposes the following:

- ☐ Creation of an Institute for State and Local Government Accounting and Financial Reporting Standards to prepare nationally recognized standards applicable to state and local governments. The institute would have seven members — one each from federal, state, local and county governments, the public accounting profession, the financial analyst profession and the general public.
- ☐ Bylaws governing the institute would be approved by a council composed of the SEC chairman, the Secretary of the Treasury, the Comptroller General or their designees.

In promulgating accounting and reporting standards, this institute would take into account current practices and procedures; and consider the costs of implementing any new standards. Participation by all affected and interested parties would be invited, particularly the FASB, the Comptroller General, and federal, state and local governmental agencies.

Three Auditing Interpretations Issued

The staff of the Institute's auditing standards division has prepared three new auditing interpretations. Two interpretations of SAS no. 24, *Review of Interim Financial Information*, were issued to maintain present practices while a task force considers the implications of the new form of accountant's report on interim reviews for 1933 Act filings and letters for underwriters.

- ☐ *Filings under the Securities Act of 1933* states that SAS no. 24 reports should not be included or referred to in a 1933 Act filing.
- ☐ *Letters for Underwriters* states that the guidance of the four interpretations of section 630 of SAS no. 1 still apply. These interpretations were published in the October 1977 *Journal of Accountancy* and are summarized in this interpretation.

The third is an interpretation of SAS no. 2, *Reports on Audited Financial Statements*.

- ☐ The interpretation, *Disclosures of Subsequent Events*, makes clear that a note on a subsequent event which should be disclosed may not be labeled unaudited.

The text of the three interpretations will appear in the July *Journal of Accountancy*.

FASB to Determine Estimates of Residual Values for Leases

The Financial Accounting Standards Board recently issued an exposure draft, *Estimates of Residual Values by Lessors and Lessees*, which proposes certain changes to its Statement no. 13, *Accounting for Leases*. According to the draft, estimates of residual value by lessors and lessees are important determinations because they can affect lease classification as well as the subsequent accounting.

The proposal, if adopted, would specify that residual value estimates are to be based on price levels and market conditions existing at the inception of the lease, rather than on the actual value of the leased property at the end of the lease term. The draft says that "possible future changes in specific market values or changes in the general purchasing power of the monetary unit are not to be considered in making such estimates."

Comments are due by July 13. Up to five copies of the draft are available free, until July 13, from the FASB, Publications Department, High Ridge Park, Stamford, Conn. 06905.

FASB Issues Two Amendments to Statement on Leases

The Financial Accounting Standards Board has approved two statements which further amend FASB Statement no. 13, *Accounting for Leases*.

- ☐ *Classification or Renewals or Extensions of Sales-Type or Direct Financing Leases* — This amendment requires a lessor to classify a renewal or extension of a sales-type or direct financing lease as a sales-type lease if the lease otherwise qualifies as a sales-type lease and if the renewal or extension occurs at or near the end of the term of the existing lease.
- ☐ *Accounting for Sales with Leasebacks* — The provisions of this statement require recognition of (a) profit or loss on sales with minor leasebacks and (b) a limited amount of profit on certain sales with other than minor leasebacks.

Both statements are effective September 1, 1979.

Copies of the statements may be obtained from the FASB.

FASB Report Evaluates Impact of Statement no. 19

The FASB's Statement no. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, had no significant effect on the stock prices of oil and gas producing companies using full cost accounting relative to those using the successful efforts method, according to a recent report by the Financial Accounting Standards Board.

The study, entitled *The Effects of the Issuance of the Exposure Draft and FASB Statement no. 19 on the Security Returns of Oil and Gas Producing Companies*, combines three reports prepared by Professor Thomas R. Dyckman of Cornell University and sponsored by the FASB.

For further information, contact the FASB office.

International Group Exposes Ethics Draft

The council of the International Federation of Accountants (IFAC) has authorized exposure to its member groups of a draft, "Professional Ethics for the Accountancy Profession." It cites the basic principles, such as integrity, objectivity, independence and professional competence that should be covered in the code of any accountancy body. Comments are due by November 30.

The council also approved the International Auditing Practices Committee as the body to issue auditing guidelines on behalf of the council.

Next Entry Date for Disability Plan Nears

The next entrance date for the AICPA's long-term disability income plan will be July 1 for those members eligible for participation.

Under the plan, monthly income benefits of \$500, \$750 or \$1,000 are available without regard to current earnings or other disability coverage. Some members can qualify for higher monthly benefits, up to \$3,000, depending on earnings and existing coverage.

Invitations to begin or to increase participation were mailed to AICPA members earlier this month. For further information, contact the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, N.Y. 10016. Telephone: 212/661-9000.

Journal to List Pending Exposure Drafts

Beginning with the June issue, the *Journal of Accountancy* will publish a monthly list of current exposure drafts issued by those standard-setting bodies of particular interest to the accounting profession. The list will immediately follow the official releases department.

Issuers include the FASB, SEC, International Accounting Standards Committee, International Federation of Accountants, and the AICPA's technical standard-setting boards or committees. The list includes the draft's issue date, issuer, title or description, and comment deadline.

**Ethics
Investigations
Summarized for 1978**

In line with the Institute's policy of reporting on disciplinary matters, the AICPA's professional ethics division has updated its statistics on the disposition of ethics investigations processed under the AICPA's Joint Ethics Enforcement Plan (JEEP) and the ethics enforcement committees of 37 participating state CPA societies.

The statistics below reflect activities for the last six months of 1978 and also constitute a year-end report for that year. Activities for January 1-June 30, 1978, were previously summarized (see October 9, 1978 Letter). The cases referred to the Institute's Joint Trial Board may not have all been heard by the board.

Disposition of Ethics Investigations

AICPA plus 37 State Societies of CPAs (including non-JEEP states)
Semiannual and Year-End Report for 1978

Investigations*	<u>Second Half</u>	<u>Full Year</u>
Open at start of period	505	592
Opened during the period	218	444
Total	<u>723</u>	<u>1,036</u>
Subtract-disposition in period:		
Expelled — under automatic provisions of bylaws	13	19
Suspended — under automatic provisions of bylaws	11	28
Cases approved to go to Trial Board	9	14
Cases awaiting Trial	0	4
Trial Board — Expelled*	0	2
Trial Board — Suspended*	3	4
Administrative Reprimand	11	30
Constructive Comment	38	86
No Violation	114	297
Subtotal	<u>199</u>	<u>484</u>
Investigations opened at end of period **	<u>524</u>	<u>552</u>
Under current investigation	352	
Deferred due to litigation	172	

* These data refer to cases and not the number of respondents in a case. An investigation is opened at point where file contains evidence a Code violation may have occurred.

**The difference between the figures for the second half and full year is due to the difference in the number and identity of states reporting for the first half and second half of 1978.

Recent Publications

Computer Services Guidelines — Controls Over Using and Changing Computer Programs — This new study in the Computer Guidelines series is aimed at helping practitioners to consider whether management's control procedures have operated as planned for those functions performed by computer programs. Price is \$5; \$4 to members (available shortly from the AICPA order department).

The National Council on Governmental Accounting has issued two statements: Statement no. 1 restates the principles of its 1968 publication, *Governmental Accounting, Auditing and Financial Reporting*; Statement no. 2 applies the first statement to grants, entitlements and shared revenues. For further information, contact the Municipal Finance Officers Association, 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601 (312/977-9700).

Washington Briefs

A U.S. Court of Appeals recently issued a decision which strongly supports the authority of the SEC to discipline accountants. The court rejected an attempt by Touche Ross & Co. to prevent the SEC from conducting an administrative proceeding against the firm and three of its former partners.

The Council on Wage and Price Stability has issued Form PM-1, a new quarterly reporting form, as part of its efforts to monitor compliance with the voluntary price standards. The form will be used by CWPS as a means of collecting data from companies. Copies of the form may be obtained by contacting CWPS, 726 Jackson Place, N.W., Washington, D.C. 20506, or reproducing the form from the May 2 *Federal Register*.

In Rel. 79-21, the SEC announced its plans for the new Office of Small Business Policy. To be headed by Mary E. T. Beach, the office will divide its work between rulemaking initiatives and reviewing registration. The office will also be responsible for monitoring filings of the new Form S-18, a simplified registration form (see April 23 Letter).

In T.D. 7617, the IRS has issued temporary regulations relating to the foreign income exclusion and the deduction for excess foreign living costs. The IRS also proposed these rules in a slightly modified form for permanent adoption. Comments are due by July 30, and a public hearing set for August 28.

Legislation to simplify compliance with federal employee benefit plan requirements has been introduced by Senator Lloyd Bentsen (D-Texas). Under the ERISA Simplification Act of 1979 (S. 1089), the annual termination premium paid to the Pension Benefit Guaranty Corporation would be collected by the IRS as part of the annual report filing requirement. Also, the summary annual report (SAR) would be abolished.

Tuition tax relief legislation has been reintroduced in the Senate by four members of the Finance Committee in the form of three separate bills. Similar legislation was approved by the House and the Senate in the last Congress, but failed to gain ultimate passage when the Senate refused to support credits for elementary and secondary school costs.

Senator Harrison Williams (D-N.J.) has introduced two bills affecting termination insurance for multiemployer pension plans. One bill postpones until May 1, 1980, the date on which the Pension Benefit Guaranty Corporation must pay benefits under terminated multiemployer plans.

The CPA Letter

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The CPA Letter

A Semimonthly News Report Published by the AICPA

Credibility of Financial Reporting Questioned

Public confidence in the accuracy of financial reports is eroding rapidly, according to Harold M. Williams, chairman of the Securities and Exchange Commission. Noting that there is a growing credibility gap between financial reporting and economic reality, Williams indicated that the SEC may take a more active role if accountants, businessmen and academia don't do more.

Speaking at the FASB's conference on inflation effects, which was held May 31 in New York, the SEC chairman said conflicting reports of record corporate profits on one hand and inadequate earnings to maintain and expand capacity on the other tend to confuse political leaders and the public. "Further, they raise questions about the integrity of financial reporting."

The business community and the accounting profession, he added, "are running out of time in which to develop meaningful solutions to this problem. We need to make substantial progress and make it now."

Williams noted that the task of improving public confidence in financial reports will require the FASB "to continue its efforts to provide leadership — not merely consensus building." He added that, in his view, "the future vitality of the private standard setting process hangs in the balance."

Concern about the gap between reported earnings and "real" profits was also noted by Donald J. Kirk, FASB chairman, and Paul W. McCracken, professor of business administration at the University of Michigan and a former chairman of the Council of Economic Advisers under President Nixon.

There is "a need for action" by the private sector on inflation accounting, added Kirk. "What is at stake is the credibility not just of financial statements but of American business profits," he said.

The FASB also held a public hearing June 6-8 in New York on financial reporting and changing prices. The board plans to issue a final statement by September 30 on this issue.

Member Auto Rental Discounts to Start in July

Arrangements have now been completed with the Hertz Corporation for AICPA members to obtain substantial discounts on many of the published "gas not included" rates for Hertz automobile rentals (see May 14 Letter).

In the U.S., the discounts, which become effective on July 1, will be 30 percent off the daily rate and 25 percent off the weekly and monthly rates, except for Alaska, Florida, Hawaii and Puerto Rico. In these areas the discount will be 20 percent for all three categories. In Canada, there will be a 15 percent discount on "flat" rates and 35 percent on "time and mileage" rates. For other countries, a 20 percent discount will apply to "time and mileage" rates, where permitted by law. "Tour/touring" rates and certain other arrangements are not included.

Here is how the program works. All members will receive Hertz I.D. cards with their AICPA dues bills, which will be mailed during the latter part of June. Just present the I.D. card together with a major credit card at the time of rental.

Members who wish to apply for a personal obligation Hertz non-guarantee credit card or who have any questions, should write to Philip Dulk, The Hertz Corporation, 485 Lexington Avenue, New York, New York 10017.

**Proposal on
Comparative
Financial
Statements
Exposed**

The Institute's accounting and review services committee has issued an exposure draft of a proposed statement on standards for accounting and review services entitled *Reporting on Comparative Financial Statements*. The draft would establish standards for reporting on comparative financial statements when financial statements of one or more periods presented have been compiled or reviewed in accordance with SSARS 1, *Compilation and Review of Financial Statements* (see December 25, 1978, *Letter*). The proposed statement contains guidance for the transitional period when a previously issued report on financial statements of a prior period may have been prepared in accordance with the provisions of section 516 of SAS no. 1. Examples of reports appropriate for continuing accountants and predecessors are also included.

Comments are due by July 31, 1979, and should be directed to Marilyn Zulinski at the Institute. Copies are available from the AICPA order department.

**Draft Issued
on Association
with Financial
Statements**

The Institute's auditing standards board has issued an exposure draft of a proposed statement on auditing standards, *Association with Financial Statements*. The draft would supersede existing SASs on unaudited financial statements — SAS no. 1, sections 516-518 and SAS no. 15, paragraphs 13-15. These changes are necessary because of the new division of responsibility between the auditing standards board and the accounting and review services committee.

The draft identifies the professional standards applicable when an accountant is associated with (a) the financial statements of a public entity or (b) the financial statements of a nonpublic entity that have been examined in accordance with generally accepted auditing standards. The proposed SAS also provides guidance for reports on comparative financial statements when only one period has been audited.

Comments should be sent to the auditing standards division by July 31. Copies are available from the AICPA order department.

**Guide on
Unaudited
Statements
Withdrawn**

The Institute's *Guide for Engagements of CPAs to Prepare Unaudited Financial Statements* has been withdrawn. This action was taken after consideration of AICPA publications that might conflict with projects of the accounting and review services committee. The committee's first statement provides guidance for reporting on unaudited financial statements of nonpublic entities.

**"How To" Stressed
at Computer
Conference**

The 15th annual AICPA Computer Services Conference, held May 14-17 in San Francisco, covered a wide range of practical subjects.

Six study tracks geared to individual needs and experience were utilized. These included basic and advanced computer audits, specialized computer audits, basic and experienced EDP users and general topics in EDP. Most of the three-and-one-half day conference was devoted to these "how to" sessions, with considerable participation by the more than 500 CPAs attending.

Speakers included John M. Lewis, president of Real Decisions Corporation; Charles P. Lecht, president of Advanced Computer Techniques Corporation; and Portia Isaacson, a consultant to Electronics Data Systems. Joseph P. Cummings, AICPA chairman, also discussed current Institute activities.

Tax Rates May Be Linked to Price Index

There will be major tax legislation next year that may include linking the tax code to the consumer price index, according to Representative Barber B. Conable, Jr. (R-N.Y.), the House Ways and Means Committee's ranking Republican.

Speaking at the AICPA's federal tax division conference earlier this month, Rep. Conable said that indexing the tax code to the consumer price index would have the effect of lowering taxes when inflation "artificially" raises taxpayers into higher brackets. He added that tax cuts are likely to be passed in 1980 with or without indexing.

Also speaking was Senator Gaylord Nelson (D-Wis.), chairman of the Senate Select Committee on Small Business and a member of the Senate Finance Committee. The senator noted that the "paperwork burden," including unnecessary tax forms, is a major part of what he called "the increasingly hostile climate small business has faced since World War II." Other speakers included IRS Commissioner Jerome Kurtz; Bernard M. Shapiro, chief of staff for the Joint Committee on Taxation; and Stuart E. Siegel, chief counsel for the IRS.

About 200 members of AICPA tax committees attended the conference.

Dealing with "The Best Accountants in America"

A number of members have sent the AICPA a promotional pamphlet for a directory called "The Best Accountants in America." The pamphlet indicates that the recipient's name and specialty have been selected to be listed in the first edition of the directory.

Some members submitted the pamphlet expressing concern at such a listing. The obvious implication of the title is that those accountants who are listed have been judged by some unannounced standard to be the "best." The AICPA is unaware that such a standard exists and, if it does, that it has been properly applied. In addition, the designation of specialties could be misleading in the absence of guidelines providing a basis for such designation.

Members are therefore reminded that Rule 502 as amended in the recent mail ballot prohibits advertising and solicitation by means that are false, misleading or deceptive. They should consider the proposed directory in the light of that rule if they are asked to consent to the inclusion of their names in the publication.

NOTICE OF AICPA PUBLIC MEETINGS

Auditing Standards

An open meeting of the auditing standards board will be held on June 26-28 in the board room at the AICPA New York office. Sessions will be held from 9:00 a.m. to 5:00 p.m.

The agenda items will be reported by the meetings information telephone service.

The next scheduled meetings are in San Francisco on August 7-9 at the Hyatt Hotel on Union Square and on September 18-20 in New York at the AICPA office.

Quality Control Standards

The quality control standards committee will hold an open meeting in Chicago on June 27 at the O'Hare Hilton Hotel from 9:00 a.m. to 4:00 p.m.

Morning Session

- ☐ System of Quality Control for a CPA Firm. (Consider draft for publication.)

Afternoon Session

- ☐ Quality Control Policies and Procedures for CPA Firms. (Discussion of preliminary draft.)

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

The self-regulatory program of the accounting profession will be the subject of oversight hearings to be conducted by the Senate Governmental Affairs Subcommittee on Governmental Efficiency. To be chaired by Senator Thomas Eagleton (D-Mo.), the hearings are slated for some time in July. The date will allow the subcommittee to review the SEC Second Annual Report on the Accounting Profession, which is expected to be released about July 1.

The House Ways and Means Subcommittee on Select Revenue Measures has scheduled hearings for June on legislative proposals to clarify the definition of independent contractors for tax purposes. The date and time of the hearings will be released in due course.

Senator Howard Metzenbaum (D-Ohio) is expected to introduce a comprehensive "corporate governance" bill including a proposal that the boards of major corporations be controlled by "outside directors." Details of the bill have not been fixed yet, and chances of its passage appear slim. A key feature of the bill would require a majority of corporate board members to have virtually no previous connection with the corporation.

In T.D. 7621, the IRS published final regulations setting forth the procedures for tax return preparers to follow in claiming credits or refunds on disputed penalties that they have paid. For further information, see the May 14 *Federal Register*.

The Cost Accounting Standards Board will hold its third evaluation conference on standards on November 1, 1979, in Reston, Virginia. The conference is aimed at receiving comments on improving cost accounting standards and "enhancing their utility." For further information, contact Arthur Schoenhaut, (202/275-6111) at the CASB, 441 G Street, N.W., Washington, D.C. 20548.

The House recently passed its version (HR 4011) of a bill reauthorizing the Small Business Administration. The bill would set a \$500,000 ceiling on SBA and FMHA loans, whereas the senate-passed bill contains no ceiling provisions. A conference to work out the differences between the two bills is scheduled for June.

The IRS has issued proposed rules on the residential energy tax credit. Comments and a request for a public hearing are due by July 23. For further information, see the May 23 *Federal Register*.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
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SEC Cautions on Nonaudit Services

In Interpretive Release (ASR-264) issued on June 14, the Securities and Exchange Commission warned accounting firms that a number of management advisory services being performed by accountants may impair their independence and thus violate SEC regulations. While not proscribing auditors from offering any specific nonaudit service, the commission advised that such services as actuarial consulting, opinion surveys and psychological testing could be in conflict with SEC requirements that outside accountants be independent of their audit clients.

The statement urges that companies and accountants assess the total amount of revenues generated by audit work compared to consulting services and cautions that payments to accountants for MAS work shouldn't comprise too large a share of total accounting-service payments. "The higher the percentage of consulting services, the greater the question," said A. Clarence Sampson, SEC chief accountant. Among the services the commission believes "would probably jeopardize auditor independence" are

- ☐ Actuarial consulting.
- ☐ Plant layout surveys.
- ☐ Consulting on employee benefits and compensation.
- ☐ Consumer surveys.
- ☐ Public-opinion polls.
- ☐ Psychological testing.

Accountants, said Sampson, are warned against taking on advisory work that would cause "people looking in from the outside to assume the accountant was part of management" or that would cause them to "lose their objectivity."

SEC Approves "Safe Harbor" Rules

At an open meeting earlier this month, the Securities and Exchange Commission approved in principle a "safe harbor" rule that will limit the liability of public companies when they issue economic projections. The rule combines sections of the SEC's two proposals issued last November (see December 11, 1978, *Letter*). The new rule insulates a company from liability as long as the projections are made "in good faith" and have "a reasonable basis."

The rule, which does not make projections mandatory, will apply to companies that report to the SEC or have filed registration statements and won't require companies to disclose the assumptions upon which the projections are made. A final rule is expected to be available shortly.

In a related matter, the SEC agreed to propose disclosure guidelines for registration statements and reports filed by electric and gas utility companies. The proposed guidelines include mandatory disclosure of certain economic projections, plus capital construction plans and fuel sources.

Also, the commission has delayed for one year its requirement for oil and gas companies to disclose audited estimates of their in-ground reserves according to the reserve recognition accounting method (see September 25, 1978, *Letter*). The new deadline for including these estimates in financial statements is now December 26, 1980.

FASB Holds Hearings on Changing Prices

Earlier this month, the Financial Accounting Standards Board held the last of the seven public hearings which are part of its project on financial reporting and changing prices. The board had held a series of open meetings in May to address the unique problems of measurement in six specific industries: banking, insurance, forestry products, real estate, mining, and oil and gas. Preliminary task force reports were issued in April and revised reports are expected to be issued shortly by these industry task forces.

The last hearing, held June 6-8 in New York, focused on two exposure drafts issued by the board for public comment — *Financial Reporting and Changing Prices*, issued December 1978, and *Constant Dollar Accounting*, issued in March. And, as usual, controversy was apparent as 31 representatives from accounting, academe and business testified at the three-day hearing.

In opening the hearing, FASB Chairman Donald J. Kirk noted that almost 500 letters of comment were received on the board's two exposure drafts. Of these, approximately two-thirds of the letters to the changing prices draft were from industry. Virtually all respondents, Kirk said, concur that data describing the effect of inflation on a business entity would be useful, "although several questioned whether there is any hard evidence that such information is being demanded by financial statement users. . . ." He added that all respondents strongly support retaining the traditional historical-cost financial statements "notwithstanding acknowledged deficiencies."

FASB to Be Responsible for Specialized Standards

In line with its recent meeting (see April 23 Letter), the Financial Accounting Standards Board has issued an exposure draft, *Specialized Accounting and Reporting Principles and Practices in AICPA Industry Accounting Guides, Industry Audit Guides, and Statements of Position*. The proposal, an amendment to APB Opinion no. 20, *Accounting Changes*, would specify that the specialized accounting and reporting practices in most of the Institute's industry accounting guides, industry audit guides and statements of position be recognized as preferable accounting practice for the purpose of deciding whether a change in accounting principle is appropriate. These practices would remain pending FASB pronouncements on these matters.

Under existing accounting pronouncements, a change in accounting principle may be made only when the new one is preferable in the circumstances.

Comments are due by July 31. Up to five free copies are available, until July 31, from the FASB, High Ridge Park, Stamford, Conn. 06905.

Federal Election Commission Sets Seminars

The Federal Election Commission will hold a series of five regional seminars to help practitioners who will advise candidates for federal office in 1980 or who will administer a political action committee. Topics will include reporting requirements for candidates and committees, public financing and segregated funds established by corporations and labor organizations.

Locations are Madison, Wisconsin, July 23; Sacramento, August 20; Philadelphia, December 3; Austin, December 10; and Winston-Salem, January 14, 1980.

Interested practitioners may call the FEC toll-free at 800/424-9530, or in Washington, D.C., at 202/523-4068 for further information.

Plans for AICPA Annual Meeting Almost Complete

Final touches are being put on the program for the AICPA's 92nd annual meeting to be held in New Orleans on October 14-16.

The technical agenda will consist of both plenary and simultaneous sessions designed to appeal to a wide range of interests. Sunday's optional program includes two tours for members and spouses to Louisiana's plantation homes and a highlights of New Orleans trip. Seven tours of New Orleans, including the French Quarter, will be available to spouses Monday and Tuesday.

The Monday joint session luncheon speaker will be political humorist Mark Russell. Plenary session speakers will include Pulitzer Prize-winning journalist George F. Will and Thomas Murphy, chairman and chief executive officer, General Motors Corporation.

The program will begin with the annual business meeting, which will be addressed by Joseph P. Cummings, Institute chairman. Simultaneous sessions will deal with such topics as a review of the year in Washington, federal taxation, the division for firms and peer review, auditing and accounting standards, and management of a practice.

A highlights program, with full registration information, will be sent to the membership shortly. For details, contact the AICPA's meetings department.

Recent AcSEC Actions

At its meeting last month, the AICPA's accounting standards executive committee took the following actions:

- ☐ Approved a letter to be sent to the FASB asking for an interpretation of APB Opinion no. 21 on imputation of interest by broadcasters.
- ☐ Approved a comment letter to the FASB on its proposed statement of financial accounting standards, *Disclosure of Information About Major Customers*, which is an amendment of FASB Statement no. 14.
- ☐ Approved a comment letter on the FASB's proposed interpretation of APB Opinion no. 29, *Accounting for Involuntary Conversions of Nonmonetary Assets*.
- ☐ Discussed the proposed experimentation program for state and local government accounting of the Institute's committee on state and local government accounting and expressed strong support for the program.

Business Law Section of CPA Exam Updated

The Board of Examiners has updated the content of the Business Law subject of the Uniform CPA Examination to take into consideration significant recent developments affecting areas which will be tested.

Beginning with the November 1979 examination, candidates will be expected to deal with the following subjects in addition to, or in lieu of, those set forth in the March 1975 version of *Information for CPA Candidates*:

- ☐ The new Federal Bankruptcy Act effective in 1979.
- ☐ The 1972 amendments to the Uniform Commercial Code (now that they are adopted in a majority of the states).
- ☐ The Foreign Corrupt Practices Act of 1977.
- ☐ Product liability of sellers of goods under the Uniform Commercial Code (as amended in 1972 and under common law).

These subjects represent the most substantive updating of the Business Law examination content since November 1972. Other important clarifications of this examination's content will be described in a revised version of *Information for CPA Candidates*.

Single complimentary copies of the booklet will be furnished upon request to the order department starting in mid-July. This revision will be distributed to all candidates for the November 1979 Business Law examination and for subsequent examinations.

Manual for Local Practitioners to Be Issued in July

A new AICPA looseleaf subscription service, *Audit and Accounting Manual*, will be available about July 15. The manual, which was developed by the Institute's technical information division and published through Commerce Clearing House, contains a comprehensive set of audit tools and illustrations geared primarily to the needs of local practitioners.

Among the areas given in-depth treatment are working papers, internal control and audit approach and programs. For example, there is an examination of the basic elements of working papers and reviews of their content together with 72 sample illustrations.

The discount price to AICPA members is \$50, which includes supplementary and updating materials through May 31, 1980. Orders should be placed with the Institute's circulation department.

AICPA Member Suspended

A hearing panel of the Joint Trial Board Division's Regional Trial Board XI has voted to suspend the AICPA membership of Emil T. Bejsovec of Davie, Florida, for one year for having departed from generally accepted auditing standards in violation of Rule 2.02 of the Code of Professional Ethics. The panel also decided that the suspension would be terminated after six months upon his submitting evidence of completion of 40 CPE credit hours in auditing.

Before entering into his present employment, Mr. Bejsovec had issued unqualified opinions on the financial statements of a client for years ended in 1966 and 1967. The statements and opinions became the basis of several lawsuits and, under AICPA policy, investigation of the matter was deferred until litigation was concluded.

Mr. Bejsovec, who was present at the hearing, requested a review of the hearing panel's decision by the National Review Board. An ad hoc committee of the board was convened on May 16, 1979, to consider the request. Based upon its consideration of the record of the case, the supplemented request for review and related material, the committee denied the request. The decision of the Regional Trial Board hearing panel therefore became effective on May 16, 1979.

Recent Publications

The Institute's quality control standards committee has issued three separate checklist questionnaires to aid in reviewing working papers and reports in connection with the technical standards reviews provided under the AICPA voluntary quality control review program for CPA firms. The questionnaires are for audit engagements, unaudited engagements, and compilation and review of financial statements. For further information, contact Larry Litowitz at the Institute.

The Report of the Special Committee on CPE Accreditation has recently been published. In 1977, the AICPA's board of directors appointed a special committee to recommend whether and how continuing professional education should be accredited. This report, which is available on written request from the Institute's CPE division, contains the conclusions and recommendations of that committee. The substance of the report had been accepted by the AICPA's board of directors prior to its exposure, but will be reviewed again.

The Canadian Institute of Chartered Accountants has issued an accounting standard requiring public Canadian diversified and multinational companies to disclose more data on operations in different industries, foreign operations and export sales. The standard is effective for fiscal years beginning June 1. For further information, contact Helen Guest (416/962-1242) at the CICA, 250 Bloor Street East, Toronto 5, Canada.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting and Review Services

An open meeting of the accounting and review services committee will be held July 17-18 at Chicago's Hyatt Regency O'Hare from 9:00 a.m. to 5:00 p.m. each day. The agenda follows:

July 17 — a.m.

- ☐ Reporting on Comparative Financial Statements. (Consider comments on exposure draft.)

July 17 — p.m.

- ☐ Clarification of Independence Interpretations. (Preliminary discussion.)

July 18 — a.m.

- ☐ Communication with Users When the Accountant Is Not Independent. (Preliminary discussion.)

July 18 — p.m.

- ☐ Other Accounting Services. (Preliminary discussion.)

Accounting Standards

An open meeting of the accounting standards executive committee will be held July 10-12 at the New York Hilton Hotel, beginning at 9:00 a.m. each day. The agenda follows:

July 10 — a.m.

- ☐ Sales of Receivables with Recourse. (Discuss draft of issues paper.)

- ☐ Estimates of Residual Values by Lessors and Lessees. (Discuss draft of comment letter.)

July 10 — p.m.

- ☐ Savings and Loan Reverse Repurchase Agreements. (Discuss draft of issues paper.)

- ☐ Savings and Loan Forward Commitments. (Discuss draft of issues paper.)

July 11 — a.m.

- ☐ Chairman's Report; Report of FASB Representatives.

July 11 — p.m.

- ☐ Specialized Accounting and Reporting Principles. (Discuss draft of comment letter.)

- ☐ Accounting for Government Grants. (Discuss draft of issues paper.)

- ☐ Past Service Costs — Plant Closings. (Discuss draft of issues paper.)

July 12 — a.m.

- ☐ "Push Down" Accounting. (Discuss draft of issues paper.)

Auditing Standards

An open meeting of the auditing standards advisory council will be held July 19 in the boardroom at the AICPA New York office, from 9:00 a.m. to 5:00 p.m. The agenda follows:

Morning session

- ☐ Functions of the Auditing Standards Advisory Council. (Discussion.)

- ☐ Operating Policies of the Auditing Standards Advisory Council. (Discussion.)

Afternoon session

- ☐ Operating Policies of the Auditing Standards Advisory Council. (Continuation.)

- ☐ Procedures of the Auditing Standards Board. (Discussion.)

Federal Taxation

Open meetings of the federal tax division executive committee will be held in New York at the Barclay Hotel on July 16 from 1:00 p.m. to 5:00 p.m. and on July 17 from 9:00 a.m. to 5:00 p.m. The agenda follows:

July 16 — p.m.

- ☐ Designation under Rules 201 and 204 of the Code of Professional Ethics. (Discussion.)

- ☐ Indexation Task Force Report. (Consider draft for publication.)

- ☐ Report on Tax Policy Statement on Taxation of the Formation and Combination of Business Enterprises. (Consider draft for publication.)

- ☐ Sunset Legislation for Tax Expenditures. (Discussion of preliminary draft.)

July 17 — a.m.

- ☐ Recommendations Regarding Employee-Independent Contractor Issue. (Report of task force.)

- ☐ Response to Inquiry on Thor Power Tool Co. Supreme Court Decision. (Discussion of preliminary draft.)

- ☐ Small Business Taxation Legislative Recommendations. (Consider draft for publication.)

July 17 — p.m.

- ☐ Statement of Responsibilities in Tax Practice on Representation of Clients with Conflicting Interests. (Preliminary discussion.)

- ☐ Addendum for Statements of Responsibilities in Tax Practice Regarding Differences Between the Statements and Preparer Regulations. (Preliminary discussion.)

- ☐ Tax Forms Subcommittee. (Report of meeting with Internal Revenue Service.)

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

Just before introduction on May 25, two modifications were made to the bill introduced by Senator Harrison Williams (D-N.J.) to standardize the accounting and financial reporting practices of state and local governments (see May 28 Letter). Instead of 7 members, the proposed Institute for State and Local Government Accounting and Reporting Standards would be composed of 11 members. Also, the bill, S 1236, is cosponsored by Senators William Proxmire (D-Wis.) and Paul Sarbanes (D-Md.). For further information, see the July *Journal of Accountancy*.

President Carter, as expected, announced his decision to reappoint Republicans John Evans and Phillip Loomis to the SEC. Evans' term would expire June 5, 1983; Loomis' term a year later. The Senate must confirm both appointments to the five-member commission.

Final regulations eliminating the requirement that pension and benefit plans file a plan description Form EBS-1 have been published by the Labor Department. Statutory requirements can now be met by filing a summary plan description.

The Cost Accounting Standards Board has proposed changes to regulations concerning the treatment of increased costs paid by the government under firm fixed-price contracts. Comments are due by August 31.

The Council on Wage and Price Stability recently published supplemental questions and answers on noninflationary pay and price behavior. Most have appeared in press releases, but were not formally published. The Qs & As include such topics as the price standard, insufficient product coverage and professional fees. The CWPS is also expected to issue a compendium containing all the Qs & As to date later this month. For information, contact Office of General Counsel, CWPS, 726 Jackson Place, N.W., Washington, D.C. 20506.

The IRS has proposed rules on the tax election of lump sum distributions from qualified pension plans. The rules provide guidance on electing to treat no portion of the distribution as long-term capital gain. Comments are due by July 30.

The Comptroller of the Currency has issued proposed amendments covering areas such as management remuneration, corporate governance, beneficial ownership, changes in independent accountants and services and fees of independent auditors. For further information, see the June 4 *Federal Register*. Comments are due by August 3.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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The CPA Letter

A Semimonthly News Report Published by the AICPA

SEC Continues Private Sector Support in Report to Congress

The SEC, in its second annual report to Congress, generally supported the accounting profession's recent efforts at self-regulation. The report, *The Accounting Profession and the Commission's Oversight Role*, concludes that "nothing has happened in the past year which is inconsistent with the commission's continued support for the profession's program." In view of the progress made, "the commission is not recommending, at this time, legislation to supersede or control the regulation of accountants."

Although the overall tone of the report "recognizes that important strides have been made," it was critical of the progress being made in certain areas and expressed concern that some basic issues have not been resolved. Among the problem situations cited by Chairman Harold M. Williams in his transmittal letter were the level of membership in the SEC practice section of the division for CPA firms; lack of access by SEC staff to peer review workpapers; the ability of firms to exclude certain engagements from peer review; the "advisory" status of the public oversight board; and the need for accounting and auditing standard-setting processes that are responsive to changing circumstances.

Among the other elements are the following:

- ☐ The AICPA's position on mandating independent audit committees was disappointing and the SEC will consider further action.
- ☐ The public oversight board's report did not adequately "sensitize accountants and their clients to the potential consequences of the unrestricted performance of nonaudit consulting services for audit clients."
- ☐ Although largely untested, the creation of the SEC section of the division for CPA firms was "a major accomplishment" and the "primary basis" for the conclusion that "there is promise for successful voluntary self-regulation."
- ☐ The peer review program is the most significant element in the overall scheme and the commission remains optimistic that "the process will ultimately prove effective."
- ☐ The initiative for establishing and improving accounting standards should remain in the private sector. However, the FASB must continue its efforts to provide leadership and take necessary action in controversial areas. The profession and the corporate community must encourage that leadership and join more actively in the standard-setting process.

Single copies of the portion of the report that contains the commission's conclusions may be obtained from the Publications Section, SEC, 500 North Capitol Street, Washington, D.C. 20549.

IASC Approves Standard for Assets and Liabilities

The International Accounting Standards Committee has approved for publication IAS no. 13, *Presentation of Current Assets and Current Liabilities*. The statement, which is expected to be available in November, deals with the meaning and presentation of current assets and current liabilities in the balance sheet.

Also, the committee approved for publication a discussion paper on disclosures in financial statements in banks. The paper is expected to be available in October, with comments due by April 30, 1980.

Ethics Division Issues New Pronouncements

Among its recent actions, the executive committee of the AICPA's professional ethics division approved an interpretation dealing with investor/investee relationships, adopted three rulings and deleted several items.

The following summarizes these actions:

- ☐ Effect on Independence of Financial Interests in Nonclients Having Investor or Investee Relationships with a Member's Client (Interpretation 101-8) — This interpretation sets forth various situations where independence may or may not be impaired in regard to such relationships.
- ☐ Member and Client Are Limited Partners in a Limited Partnership (Ethics Ruling under Rule 101) — This ruling deals with cases where a limited partnership may be considered a "joint closely held business investment."
- ☐ Data Processing: Billing Services (Ethics Ruling Under Rules 502 and 505) — The committee holds that a separate business to provide centralized billing services is a type of service performed by public accountants.
- ☐ Location of Separate Business (Ethics Ruling Under Rule 504) — Under this ruling a member can conduct a separate business from the same location as the member's accounting practice unless there is a conflict of interest.
- ☐ Self Designation as Expert or Specialist (Interpretation 502-4) — This has been modified to permit indications that a practice is limited to one or more types of services.

In other areas, the committee decided to withdraw the proposed modification to Interpretation 502-2 on false, misleading or deceptive acts which was previously exposed and deleted Ethics Ruling no. 40 under Section 191 regarding a controller entering public practice, Interpretation 502-3 on other forms of solicitation and Interpretation 504-1 on incompatible occupations.

Appropriate texts will appear in the August *Journal of Accountancy*.

AICPA Insurance Refund Due

The 1979 refund of the AICPA Insurance Trust is scheduled for payment this month — over \$13,000,000. Here are the refund rates applicable to contributions for insurance during the 12-month period ending September 30, 1978.

For eligible individuals under the CPA Plan:

<u>Age</u> <u>Classification</u>	<u>Payment Basis Elected and Contributions Paid</u>		
	<u>Annual*</u>	<u>Semi-Annual*</u>	<u>Monthly</u>
Under 40	82%	78%	74%
40-54	55	51	47
55-64	41	37	33
65 and over	8	4	—

*Refund percentages include bonus refunds for eligible individuals remitting contributions on an annual or semi-annual basis. Such bonuses are 8 and 4 percent, respectively.

Firms under the Group Insurance Plan will receive a 38 percent refund for those without dependent coverage and 34 percent for those with such coverage.

Coverage under the Institute's plans is now over \$6 billion. There are about 63,000 participants in the CPA Plan and some 65,000 people in the Group plan.

Invitations to commence or increase participation in these plans are scheduled to be mailed in late August. For information, AICPA members should contact the Plan Agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10016 (212/661-9000).

SEC Practice Section Reduces Cost for Local Firms

At its last meeting, the executive committee of the SEC practice section of the division for CPA firms decided to lower the dues and decrease insurance requirements for local practitioners who have only a few SEC clients. These actions were taken as a result of comments by many of these practitioners that membership in the section might be expensive for them.

The following are the changes approved by the committee:

- ☐ Annual dues for membership in the section will be limited to \$100 for firms with 0 to 4 SEC clients. The new schedule will produce significant reductions for many firms in this category.
- ☐ Dues for all new members will be prorated on a monthly basis in relation to the calendar year.
- ☐ The liability insurance requirements for firms with 0 to 4 SEC clients has been reduced to \$50,000 per qualified staff person, with a minimum of \$250,000 and a maximum of \$5,000,000.
- ☐ All members of the section are permitted to apply for relief from the insurance requirements in hardship cases.

The committee encourages firms to continue to submit their views on the section's activities, especially as they relate to membership.

Meetings on GAAFR Restatement to Be Repeated

The Municipal Finance Officers Association will repeat the regional colloquia held in April and May (see March 12 Letter) next month to discuss the National Council on Governmental Accounting's Statement no. 1, *Governmental Accounting and Financial Reporting Principles*. The statement sets forth the principles of the GAAFR Restatement, the revision of the NCGA's 1968 pronouncement, *Governmental Accounting, Auditing and Financial Reporting*.

The colloquia will be held in five major cities nationwide between August 20 and 25. For further information, contact the MFOA, 180 North Michigan Avenue, Suite 800, Chicago, Ill. 60601.

Sixth Annual MAS Conference Set

The Institute's sixth annual national MAS conference will be held September 17-18 at Chicago's Marriott Motor Hotel (O'Hare). The two-day conference will provide an update on a wide range of MAS practice subjects.

This year, the program will give practitioners a choice of full-day programs on MAS practice development; planning, budgeting, and control for small business clients; and assisting clients with minicomputer applications and controls. There will also be sessions on word processing and computer installation effectiveness reviews, as well as 12 practitioners' forums geared to exchanging ideas and experiences on specific MAS practice and administrative topics. Registration for the forums will be limited.

Registration is \$100 for one day; \$150 for two days. For further information, contact the AICPA's meetings department.

National CPE Conference for Firms Set

The Institute's continuing professional education division and the education materials exchange subcommittee (EDMAX) will hold a two-day conference this fall on planning, developing and monitoring CPE programs for firms of all sizes. The National CPE Conference for Firms is slated for September 27-28 at Denver's Marriott Hotel.

Geared to CPE planners within firms, the program will offer opportunities for the exchange of ideas and information as well as provide workshops on specific aspects of planning and implementing a CPE program. CPE standards and peer review will also be discussed.

Price is \$150. For further information, contact Pat Jackson in the Institute's CPE marketing department (212/575-3861).

Quality Control Standards Committee Sets 1979 Rates

The Institute's quality control standards committee has set the following rates for 1979 reviews and checklists under the program available to firms that are not members of the division for CPA firms:

- ☐ The technical standards review checklist questionnaires (see June 25 Letter) aimed at aiding practitioners in reviewing working papers and reports are \$30 a set. The set includes three questionnaires for reviewing audit engagements, unaudited financial statement engagements, and compilation and review of financial statements.
- ☐ The rates for technical standards reviews and preliminary quality control procedures reviews under the voluntary quality control review program for firms that are not members will be at the following rates: \$45 per hour for the review captain; \$35 per hour for other reviewers, plus a 10 percent administrative surcharge and travel expenses.
- ☐ The fee for the quality control document review will remain at \$150.

FASB Issues Interpretation on Deferred Income Taxes

In an effort to clarify balance sheet classification of deferred income taxes, the Financial Accounting Standards Board recently issued a proposed interpretation of APB Opinion no. 11, *Accounting for Income Taxes*. The proposal, *Balance Sheet Classification of Deferred Income Taxes*, deals with deferred income taxes relating to long-term construction contracts, undistributed earnings of subsidiaries, and a change in method of accounting for income tax reporting.

If adopted, the proposal would require that a deferred income tax be classified the same as the related asset or liability.

Comments are due by August 22. Copies of the proposal are available from the Publications Department, FASB, High Ridge Park, Stamford, Conn. 06905.

FASB Further Defines Contingent Rentals

The Financial Accounting Standards Board has issued Statement no. 29, *Determining Contingent Rentals*, which amends its Statement no. 13, *Accounting for Leases*, by further clarifying its definition of contingent rentals.

The statement defines contingent rentals as "the increases or decreases in lease payments that result from changes in the factors on which lease payments are based after the inception of the lease." Lease payments depending, for example, on the prime interest rate, a factor that is measurable when the lease is signed, are to be included in minimum lease payments.

Copies of the statement may be obtained from the FASB.

On another matter, the FASB has called a background briefing for July 19 at the Biltmore Hotel in New York, starting at 9:30 a.m., regarding two exposure drafts on pensions. Copies will be available from the FASB after July 23.

Two AICPA Members Are Expelled

The Institute's bylaws provide that any member convicted of a crime defined as a felony under the laws of the convicting jurisdiction, or for willful failure to file any personal income tax return, shall have his membership terminated without a hearing upon the filing of a final judgment of conviction with the Secretary.

- ☐ On May 3, 1979, W. Frank Wolfenbarger of Irving, Texas was notified by the Secretary that his membership had been terminated. The termination followed receipt of a judgment of conviction in a U.S. District Court on the member's plea of guilty to a charge of aiding and assisting in the preparation of a false tax return, a felony under the United States code.
- ☐ On May 11, 1979, Stanley Burton of Newton Center, Massachusetts was notified by the Secretary that his Institute membership was terminated upon receipt of a judgment of conviction in the Superior Court of the Commonwealth of Massachusetts on the member's plea of nolo contendere of willful failure to file a personal income tax return.

**ASB Decides
Not to Issue
Interpretation on
Interim Statements**

The AICPA's auditing standards board has decided not to issue an interpretation of SAS no. 24, *Review of Interim Financial Information*, which would have stated that SAS no. 24 reports should not be included in or referred to in a filing under the Securities Act of 1933 (see May 28 Letter).

The intention of the proposed interpretation was to maintain present practices while a task force of the board studied the issue. Later developments, however, led to the decision not to issue an interpretation.

Under Section 11 of the 1933 act, an accountant who consents to the use of his report (or who consents to reference to his report) in a registration statement is considered an "expert." The auditing standards division is concerned about the implications of designating accountants as experts based on a review of interim financial information. Users of the registration statement, according to the division, may misunderstand the level of responsibility assumed if the registration statement describes the accountant as an "expert" for both audited and unaudited information. Also, SAS no. 24 was not intended to provide a basis for an accountant's "reasonable investigation" as specified by the act.

Representatives of the auditing standards board have met with representatives of the SEC in order to clarify the status of SAS no. 24 reports in 1933 act filings. The board is also developing guidance on this matter.

Until the issues are resolved, accountants who are requested to issue a report on a review of interim financial information should, according to the board, consider the possibility that the report may later be included or incorporated by reference in a registration statement. If the accountant's report on a review of interim financial information is included in a registration statement, the accountant should consider the wording of the "experts" section and his written consent so that his responsibility is not understood to be that of an "expert" as contemplated by Section 11.

**Practice
Management
Conference
Reminder**

Reservations are still being accepted for this year's practice management conferences (see May 28 Letter). Sites are San Francisco, *Practice Growth and Development* (July 30-31), *People Management* (August 2-3); Philadelphia, *Partnerships* (September 13-14); Chicago, *Firm Management and Administration* (November 1-2). For information, contact Barry Kuchinsky at the AICPA (212/575-6437).

NOTICE OF AICPA PUBLIC MEETING

Auditing Standards

An open meeting of the AICPA's auditing standards board will be held at the Hyatt Hotel on Union Square in San Francisco on August 7-9. Sessions will start at 9:00 a.m. each day. The agenda will be reported by the meetings telephone information service.

The next scheduled meetings of the board are September 18-20 and October 30-November 1 in New York City.

Professional Ethics

An open meeting of the professional ethics division executive committee will be held on July 24 at the Brown Palace Hotel in Denver from 1:30 p.m. to 5:00 p.m. The following is the agenda:

- ☐ "Newsletters and Publications Prepared by Others," Ethics Ruling no. 176 under Section 591. (Consider amendment for publication.)
- ☐ "Association of Firms Not Partners," Ethics Ruling no. 135 under Section 591. (Consider amendment for exposure.)

The next scheduled meeting of the committee is October 3 in Las Vegas.

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

The SEC has recently issued two new Staff Accounting Bulletins. SAB no. 30 describes the circumstances which, in the staff's view, indicate that a divestiture has not taken place for accounting purposes in connection with a sale of a subsidiary or other business operation. It also discusses the accounting and reporting consequences. SAB no. 31 clarifies and reiterates the staff position on the appropriate presentation in balance sheets for notes and other receivables evidencing a promise to contribute capital from affiliates of corporate general partners in limited partnership offerings filed with the SEC.

The Department of Labor has issued final regulations designed to assure pension fund managers that investments in small business do not automatically violate provisions of ERISA. According to the rule, the prudence of the investment decision must be judged with regard to the role that the proposed investment plays within the overall plan portfolio.

The IRS announced that 1979 W-2 forms are now available at IRS district offices. Earlier this year, the IRS suspended that requirement that 1979 W-2 forms be issued to terminated employees within 30 days after termination, due to a printing delay.

A bill has been proposed by a bipartisan group of tax committee members to allow for faster and simpler business depreciation. The "Capital Cost Recovery Act of 1979," would replace the current "useful life" concept of depreciation with three classes of capital investment, each having a different capital cost recovery period.

The Small Business Administration has proposed increasing the size standard for assistance to small businesses by investment or development companies. The proposal, among other things, would increase the net worth test to \$6 million and the net income test to \$2 million. Comments are due by August 20.

The Department of Labor is seeking the aid of tax accountants to familiarize their clients with the benefits of the Targeted Jobs Tax Credit (TJTC) Program. Established by the Revenue Act of 1978, the program allows private-sector employers to claim tax credits for hiring certain targeted group members. For information, contact the Office of Information, Department of Labor, 601 D Street, N.W., Washington, D.C. 20213.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
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The CPA Letter

A Semimonthly News Report Published by the AICPA

Profession's Progress Discussed at Senate Hearing

Oversight of the accounting profession was the subject of hearings held on August 1-2 by the Senate subcommittee on governmental efficiency and the District of Columbia, chaired by Senator Thomas F. Eagleton (D-Mo.).

Speaking for the Institute, vice chairman William R. Gregory listed the following five steps taken by the AICPA "to enhance the performance of the public accounting profession": The establishment of the division for CPA firms; the restructuring of the AICPA's auditing standards board; establishing a permanent committee to analyze management frauds; continuing efforts to encourage use of audit committees by boards of directors; and actions to help smaller CPA firms cope with their practice problems.

Walter E. Hanson, chairman of the Institute's division for CPA firms' SEC practice section executive committee, discussed his section's progress in the past 20 months in regulating the performance of CPA firms that audit financial statements of publicly traded companies. A vital element in self regulation, he said, is the division's peer review program. By the end of 1980, Hanson expects firms that audit 97 percent of the SEC clients of all member firms will have undergone at least one peer review of their quality control systems.

AICPA President Wallace E. Olson and Robert E. Mellin, chairman of the private companies practice section, participated in the question and answer period. Also at the hearings, Harold M. Williams, SEC chairman, reiterated his previous statement that "nothing has happened in the past year which is inconsistent with the commission's continued support of the profession's program."

For a full report on the hearings, see the September *Journal of Accountancy*.

Hearings Proposed on Smaller Firm Needs

The AICPA's special committee on small and medium-sized firms is considering supplementing its current activities with a series of public hearings in late November. Before scheduling such hearings, committee chairman Samuel A. Derieux is urging members who are interested in attending to advise the Institute of their intent so that adequate provisions can be made.

Six hearings are tentatively proposed during the week of November 26 in the following cities: Atlanta, Chicago, Dallas, Denver, Los Angeles and New York.

The committee, which was formed as a result of a resolution at the 1978 annual meeting, is charged with studying the future viability and prospects of small and medium-sized firms. The study will also deal with the effects of certain practices in the selection of independent auditors which may place the smaller firms at a disadvantage. Some 44 state societies have conducted or scheduled member forums to provide suggestions to the committee and other groups have submitted recommendations.

According to Mr. Derieux, his committee wants to provide ample opportunity for members to have their views considered. Therefore, all members who may wish to attend a hearing should write to Donovan Roberts at the AICPA before September 14, indicating the desired location. Participants should submit written comments in advance and offer possible solutions to the issues.

STATEMENT OF BOARD OF DIRECTORS ON RECENT RULE CHANGES

The following statement was adopted by the AICPA's board of directors at its July meeting:

By mail ballots in 1978 and 1979, the membership of the Institute has decided to remove the rule against encroachment and to permit any advertising or solicitation that is not false, misleading or deceptive. These most recent changes in the Rules of Conduct permit AICPA members to inform the public of the availability of professional accounting services and the terms on which those services may be obtained by those having need of them. The Board of Directors supported these changes, which are designed to provide the public the opportunity to make informed and unpressured choices among those offering to fill its needs for accounting services.

The Board is confident that AICPA members will exercise sound professional judgment and show due regard for the public they serve by refraining from the kinds of solicitation, including advertising, that would tend to mislead or otherwise result in substandard or unnecessary work.

It is clearly understood that Institute members are engaged in competition on a professional level. It is in the interests of clients and the public that Institute members compete first and foremost in the quality of the services they render. Any solicitation or advertising ought to be aimed at promoting better understanding of services offered. Promotional activities should not diminish the quality of the services or in any way detract from the reliability of those services or the reliance the public is entitled to place on them.

The Institute believes that the recent changes in its Rules of Conduct regarding solicitation, advertising and encroachment should not result in the misuse or abuse of those practices. In the final analysis every profession does and must rely upon the discretion, integrity and professionalism of its members to act in a manner consistent with the best interests of the public.

Speakers Set for Industry and Government Conference

Seven leading business and professional leaders will exchange views with Institute members at the Fourth National Conference for CPAs in Industry and Government to be sponsored by the AICPA in Dallas on October 5 (see May 14 Letter). Designed to meet the special interests of this portion of the membership, this conference provides an intensive one-day program on current and emerging issues, presented on a practical basis. Speakers include the following:

- ☐ H. Clarence Sampson, SEC chief accountant; Leonard M. Savoie, chairman, AICPA reports by management special advisory committee; and Arthur R. Wyatt, chairman, AICPA accounting standards executive committee, will discuss current and emerging corporate reporting practices including forecasting, corporate governance, internal controls and management reports.
- ☐ W. Thomas Porter, Jr., Touche Ross & Co., will conduct a session on time management for executives, including planning and delegating.
- ☐ John G. Winger, vice president, Chase Manhattan Bank, will discuss the inflation and energy outlook for 1980-81.
- ☐ Frank A. Weil, currently assistant secretary for Industry and Trade, U.S. Department of Labor, will be the luncheon speaker.
- ☐ William Gregory, vice chairman of the AICPA, will give an update on Institute activities, stressing the interests of industry and government members.

Registration is \$60. For further information, contact the AICPA's meetings department.

**AICPA Questions
SEC's Action on
Nonaudit Services**

"The de facto effect of ASR 264 could be to proscribe independent auditors from rendering management advisory services to their SEC registrant clients," says the Institute, in a letter to the SEC commenting on the commission's interpretive release on nonaudit services (see June 25 Letter). ASR 264, while not proscribing auditors from offering any specific nonaudit service, does warn accounting firms that a number of MAS activities being performed by accountants may impair their independence and thus violate SEC regulations.

In the AICPA's opinion, "ASR 264 will have, and was intended to have, a chilling and depressing effect on the use of a CPA firm's management advisory services by the firm's audit clients." This effect is also inconsistent with independent scholarly research. The SEC's release "substitutes the fear of what the commission might do administratively in lieu of responsible guidance," adds the letter. In sum, the Institute says the SEC, without specifically proscribing nonaudit services, has effectively limited them, and has achieved this "without observing the due process that should accompany any such curtailment."

As a result of the tone of this release, "the unwarranted curtailment of nonaudit services is likely to be substantially realized simply by its issuance." Therefore, the Institute urges the SEC to either withdraw the release or to issue a clarifying release to avoid the result of such a curtailment without due process.

**FASB Issues Two
Pension Proposals**

Late last month, the Financial Accounting Standards Board issued two exposure drafts aimed at giving investors and plan participants more complete and comparable financial information on the financial health of certain pension plans.

Issued as a revised exposure draft, *Accounting and Reporting by Defined Pension Plans*, would establish standards of financial accounting and reporting for the annual financial statements of a defined benefit pension plan. The proposal would apply to plans in the private sector as well as those sponsored by state and local governments. If adopted, it would require these plans to disclose information on assets available for benefits, changes during the year in those assets, the actuarial present value of accumulated plan benefits, and "significant effects of factors affecting the year-to-year change on the actuarial present value of accumulated plan benefits."

A second exposure draft, *Disclosure of Pension and Other Post-Retirement Benefit Information*, would require revised disclosures about defined benefit pension plans in employers' financial statements. The revised disclosures would include the actuarial present value of accumulated plan benefits and the pension plan assets available for those benefits as determined in accordance with the FASB's exposure draft noted above. This proposal would amend APB Opinion no. 8, *Accounting for the Cost of Pension Plans*.

Comments are due on both proposals by September 21. Up to five free copies of each are available, until September 21, from the FASB, High Ridge Park, Stamford, Conn. 06905.

In another action, the FASB has exposed a proposed statement, *Accounting for Income Taxes Related to U.K. Tax Legislation Concerning Stock Relief*. The draft would specify how an enterprise subject to U.S. generally accepted accounting principles should account for income taxes related to certain changes in the United Kingdom tax law concerning "stock relief." This permits an income tax deduction for increases in inventory. Comments are due by August 31.

**Comment Period
Delayed on Oil
and Gas Draft**

At a recent meeting, the Institute's auditing standards board agreed to extend the exposure period of the proposed audit and accounting guide, *Oil and Gas Reserve Information Required by Regulation S-X* (see April 9 Letter) to September 14. The original comment period deadline was July 13.

Savings and Loan Conference Scheduled

A national conference sponsored by the committee on savings and loan associations of the AICPA's federal government relations division will be held September 18-19 at the Hyatt Regency Hotel in Los Angeles. Among the topics to be covered are accounting for reverse repurchase agreements, internal accounting controls and audit committees, industry competition, mergers and acquisitions, and inflation reporting.

Speakers include Congressman John H. Rousselot (R-Calif.); Steven J. Golub, SEC deputy chief accountant; and Robert T. Sprouse, FASB vice chairman.

Registration is \$195. For information, contact the AICPA meetings department.

Draft on Real Estate Costs Exposed

The Institute's real estate accounting committee has issued an exposure draft of a proposed statement of position on *Accounting for Real Estate Acquisition, Development and Construction Costs*.

In general, the exposure draft holds that costs clearly associated with the acquisition, development and construction of a real estate project should be capitalized. However, the accounting standards division believes that preacquisition costs, carrying costs, indirect project costs, amenities, incidental operations, allocating capitalized costs to components of a real estate project, revisions of estimates, costs in excess of estimated net realizable value, abandonments and changes in use, and cost of sales should be accounted for in accordance with the proposed statement's recommendations.

In providing this guidance, the committee believes it is desirable to reduce alternative practices in accounting for these costs.

If adopted, the statement would be effective for financial statements for years ending after December 24, 1979.

Comments are due by September 28 and should be directed to Thomas McRae at the Institute. Copies are available from the AICPA order department.

Recent AcSEC Actions

At its meeting last month, the Institute's accounting standards executive committee took the following actions:

- ☐ Approved issue papers to be sent to the FASB on accounting for repurchase, reverse repurchase, dollar purchase, and dollar reverse repurchase agreements for savings and loan associations, and on accounting for grants received from governments.
- ☐ Approved comment letters to the FASB on its exposure draft, *Specialized Accounting and Reporting Principles and Practices in AICPA Industry Accounting Guides, Industry Audit Guides and Statements of Position* (see June 25 Letter) and on its exposure draft, *Estimates of Residual Values by Lessors and Lessees* (see May 28 Letter).

Self-Assessment CPE Program on Tax Planning Offered

The Institute has developed a self-assessment CPE program on estate, gift and trust taxation geared specifically for CPA practitioners. Adapted from a successful method used by the medical profession, the program uses unique self-evaluation techniques, confidential performance reports and educational critiques.

An annual subscription to this home-study course will allow CPAs to identify strengths and weaknesses in the estate and gift tax area, increase technical knowledge and professional competence, and earn a recommended 40 hours of CPE credit on the satisfactory completion of the program.

The subscription price of \$300 will provide two sets of material during the year, performance feedback and critiques for these semiannual issues in 1979-80. For further information, contact the Institute's CPE division.

Discussion Paper on Reporting Earnings Issued

The Financial Accounting Standards Board recently issued a discussion memorandum, *Reporting Earnings*, as part of its project for developing a conceptual framework for financial accounting and reporting. The paper discusses various disclosures of information about earnings and various forms for presenting that information.

A key issue on which the FASB is seeking comments is the presentation of information about earnings that companies should make to assist users in assessing enterprise performance and estimating future results. In considering the kinds of data that should be reported, the FASB is requesting comments on the usefulness of disclosures of information on "irregular" components of earnings — those items subject to fluctuations that may complicate the interpretation of trends in earnings.

Comments are due by November 5 and a public hearing is slated for New York beginning December 3.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting and Review

An open meeting of the accounting and review services committee will be held on August 27-28 at the Hyatt Regency Embarcadero Hotel in San Francisco from 9:00 a.m. to 5:00 p.m. on both days. The following is the agenda:

August 27—all day

- ☐ Reporting on Comparative Financial Statements. (Consider draft for publication.)

August 28—a.m.

- ☐ Reporting on Financial Information Presented on Prescribed Forms. (Discussion of preliminary draft.)

August 28—p.m.

- ☐ Proposed Interpretation of ARS Statement no. 1, *Compilation and Review of Financial Statements*. (Discussion.)
- ☐ Clarification of Independence Interpretation. (Discuss draft letter to the ethics division.)

The next scheduled meeting of the committee is October 4-5 in Denver.

Auditing Standards

The auditing standards board will hold an open meeting on September 17-19 in the boardroom at the AICPA's New York offices starting at 9:00 a.m. each day. The agenda follows:

September 17—a.m.

- ☐ Association with Financial Statements. (Consider draft for publication.)
- ☐ Auditor Involvement with Required Supplemental Information. (Consider draft for exposure.)

September 17—p.m.

- ☐ Comfort Letters and Interim Reviews. (Discussion of preliminary draft.)
- ☐ Audit Evidence. (Discussion of preliminary draft.)

September 18—a.m.

- ☐ Review of Existing Auditing Standards. (Discussion of point outline.)
- ☐ Reporting on Internal Accounting Control. (Consider draft for exposure, to continue through the p.m. session.)

September 19—a.m.

- ☐ Going Concern. (Discussion of preliminary draft.)

The next scheduled meetings of the board are October 30-November 1 in New York, December 11-13 in Atlanta and January 23-25, 1980 in New York.

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

In Rel. No. 34-16045, the SEC is proposing rules that could significantly alter the traditional relationships of a corporation and its outside attorney. Among the proposals is one that would require publicly held companies to disclose what arrangements they have with their corporate counsel for reporting possibly illegal conduct. In addition, data regarding such conduct must be conveyed to the independent auditors if, in the board of directors' opinion, the violations are material. Comments are due by November 30.

The SEC has issued two staff accounting bulletins. SAB no. 32 contains the staff view that if accounting changes which are required to be retroactively applied aren't applied by restating prior years due to materiality, the cumulative effect of such change should be included in determining income for the period in which the change is made. SAB no. 33 notes that fees incurred by issuers for audit services to employee benefit plans should be considered as services in connection with the audit function.

The IRS has issued proposed rules on the earned income credit, which would provide guidance on such issues as the allowance of credit, limitation on the amount of credit, and individual eligibility. Comments are due by September 4.

The IRS has proposed rules that would amend regulations relating to the financial reporting conformity requirement as they concern the use of the LIFO method of inventory accounting. The proposal would provide rules for determining whether a disclosure or information on income statements or other reports is to be considered supplemental or explanatory. Comments are due by September 17. For further information, see the July 20 *Federal Register*.

A national toll-free exporting information telephone service for small businesses has been set up through the efforts of the SBA, Commerce Department, Overseas Private Investment Corporation, and the Export-Import Bank. Those calling can get information on exporting, such as sources of export financing and where to find insurance. The number is 800-424-5201.

Legislation to reduce taxes by \$10 billion was recently introduced by 42 Republican Senators, headed by John Danforth (R-Mo.). Among other things, it provides for an exclusion for interest earned on savings accounts of \$100 per individual (\$200 for joint returns) and for accelerated depreciation by using 10-year life for buildings, 5 years for equipment and 3 years for cars and light trucks. If passed, the proposal would take effect in January 1980.

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The CPA Letter

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A Semimonthly News Report Published by the AICPA

FASB Modifies Reporting of Sales to Governments

The Financial Accounting Standards Board recently issued Statement no. 30, *Disclosure of Information About Major Customers*, which amends Statement no. 14, *Financial Reporting for Segments of a Business Enterprise*. The statement modifies the previous standard to require disclosure of the amount of sales to an individual domestic government or foreign government when those revenues are 10 percent or more of the enterprise's revenues. Consequently, disclosure of sales to a governmental customer is now the same as to any other customer.

The statement is effective for fiscal years beginning after December 15, 1979, with earlier application encouraged. Copies of the statement may be obtained from the Publications Dept., FASB, High Ridge Park, Stamford, Conn. 06905.

In another matter, the FASB issued a draft of an interpretation proposing that the separate financial statements of a parent company or subsidiary that are included in a consolidated income tax return should disclose the method used to allocate the consolidated income tax provision among the component companies. Comments on the proposal are due by October 19, and copies of the draft may be obtained from the FASB.

FASB to Provide Guidance in New Technical Bulletins

The Financial Accounting Standards Board has invited comments on procedures for issuing FASB technical bulletins — new kinds of publications aimed at providing timely interpretative guidance on implementation of accounting standards. These bulletins are designed to replace guidance which had previously been summarized in the board's newsletter, *Status Report*.

According to a draft of the first bulletin, *Purpose of FASB Technical Bulletins and Procedures for Issuance*, the bulletins "will not be used to establish new financial standards or to amend existing standards." Future accounting and reporting problems will be analyzed to determine whether the board should resolve them or whether the FASB staff can address them in bulletins.

Also, in another step toward developing a conceptual framework for financial accounting and reporting, the FASB recently issued for public comment a proposed statement relating to criteria for selecting and evaluating financial accounting and reporting policies. According to Phillip Ohlson of the FASB, the criteria will provide guidance to auditors, preparers and users of financial reports in choosing from the accounting and reporting method producing the "best" or most useful data for decision-making purposes.

The proposed statement, *Qualitative Characteristics: Criteria for Selecting and Evaluating Financial Accounting and Reporting Policies*, he added, is concerned with criteria to determine the most useful reporting information.

One copy of written comments should be received by the FASB by November 1. For further information, contact the FASB.

Change in Council Nominee

William S. DeMayo, a partner in the New Haven office of Ernst and Whinney, has been nominated for a three-year term on the AICPA's council. He replaces John A. Carley, who has withdrawn his name from nomination.

Trial Board Suspends Member

On May 23, 1979, a hearing panel of the Joint Trial Board Division's Regional Trial Board VII voted to suspend Paul Endicott of Farmington Hills, Michigan, from membership in the Michigan Association of CPAs and the AICPA for nine months for committing an act discreditable to the profession. However, the panel decided that the suspension would be terminated after three months upon his submitting evidence of completion of the AICPA's self-study course on professional ethics for CPAs.

The member was charged by the ethics committee of the Michigan Association of CPAs with violating Rule 501 of the MACPA and AICPA Codes of Professional Ethics by retaining the books and records of a client after the client had demanded their return.

Mr. Endicott, who was present with counsel at the hearing, did not request a review of the decision and it therefore became effective on June 22, 1979.

Ethics Committee Changes Two Ethics Rulings

The executive committee of the professional ethics division approved the following changes to rulings under the Code of Ethics at its July 25 meeting:

- ☐ Modified ethics ruling no. 176 under section 591 to remove requirements on size of type and wording to be used when a firm's name is imprinted on publications prepared by others. The ruling now requires only that the outside author or publisher be clearly identified.
- ☐ Deleted ethics ruling no. 30 under section 191 which dealt with circumstances under which a firm's independence would be impaired when a professional employee owns stock in an audit client. The basis for the decision was that this ruling is inconsistent with interpretation 101-7 on professional personnel.

Recent AcSEC Actions

At its meeting last month, the Institute's accounting standards executive committee took the following actions:

- ☐ Approved a statement of position on *Accounting for Title Insurance Companies* to be sent to the FASB.
- ☐ Approved an issues paper on *Sale of Receivables with Recourse* to be sent to the FASB.
- ☐ Approved a comment letter to the FASB on its proposed interpretation of APB Opinion no. 11, *Balance Sheet Classification of Deferred Income Taxes*.

Auditing Standards Division Seeking Input

The Institute's auditing standards division is interested in audit practice problems that might suggest the need for a new SAS, auditing interpretation, or other guidance. If you have recommendations concerning emerging audit practice problems, please write to Dan M. Guy, director of auditing research at the AICPA. Recommendations are periodically reviewed by the auditing standards board to determine if an issue should be added to its agenda.

Minority Scholarships Announced

The Institute's minority recruitment and equal opportunity committee recently announced the award of 272 scholarships for the 1979-80 academic year. The students, from 129 colleges and universities, received scholarships totaling \$163,500. New this year were 13 awards totaling \$7,250 for graduate studies.

**Small Firm
Committee Sets
Hearing Date**

The AICPA's special committee on small and medium-sized firms will hold concurrent public hearings at several locations on November 27.

Tentative sites, which will be confirmed if there is sufficient interest in the particular locales, are Atlanta, Chicago, Dallas, Denver, Los Angeles and New York. Committee members will conduct the sessions.

This committee, which is to present its final report by the 1980 annual meeting, is charged with examining the role of the smaller firms and its future prospects and how the Institute can assist in maintaining their viability.

Written comments, including suggested solutions to the issues, are requested by November 20 and should be directed to Samuel A. Derieux, the committee chairman, Derieux, Baker, Thompson & Whitt, F & M Center, Richmond, Virginia 23216. Oral presentations will be limited to 20 minutes. Those who are planning to participate should notify Donovan Roberts at the Institute as soon as possible.

**Suggested Wording
for Compilation and
Review Report
Available**

The Institute's technical information services has received inquiries on suggested wording for the accountant's compilation and review report on cash or tax basis financial statements. Guidance on suitable titles for financial statements prepared on a cash or tax basis is also provided by SAS no. 14, *Special Reports*.

The wording suggested by the TIS staff is available by writing to George R. Dick at the Institute. The texts will appear in the October *Practicing CPA*.

Recent Publications

The 1979 revised edition of the AICPA's *Management of an Accounting Practice Handbook* and the 1979 supplement to the handbook are now available from the AICPA order department. The handbook contains three loose-leaf volumes providing guidance on virtually every major area of practice management. A brochure describing the handbook and the supplement has been mailed to all practitioners. The handbook, including the supplement, is \$150, \$120 to AICPA members, while the 1979 supplement, alone, is \$27.50, \$22 to members.

The Institute recently published *University Education for Management Consulting*, a volume containing a position paper prepared by the MAS division's university education task force, and a series of papers prepared for an AICPA conference held last year on the subject. The book is intended primarily for, and will be distributed to, universities and colleges and their accounting departments. A limited number of copies are available from the Institute's MAS division for individual educators interested in management consulting.

The international accounting standards committee's Standard no. 12, *Accounting for Income Taxes*, is now available. The standard (see March 12 *Letter*) calls on all companies to employ one of the so-called "tax effect" accounting methods to report income tax expenses and savings. Price is \$2.25, with usual discounts, and is available from the AICPA order department.

Operating a Successful Accounting Practice — This book is a collection of articles published in recent years in the Practitioners Forum of the *Journal of Accountancy*. Chosen by Forum editor Richard C. Rea, the articles stress nuts and bolts material in areas such as practice growth, fees and relations with clients. Price is \$7.50, with usual discounts.

Audit and Accounting Guide — Computer-Assisted Audit Techniques — Developed by the Institute's computer services executive committee, this guide provides assistance to auditors who elect to use computers as audit tools. The guide describes audit techniques available to auditors when a client uses EDP to process accounting data. Price is \$7.50, with usual discounts.

Both publications are available from the AICPA order department.

TAX DIVISION RESPONDS TO THOR INQUIRIES

The federal tax division of the AICPA has received several inquiries concerning the effect of the recent U.S. Supreme Court decision in *Thor Power Tool Co.*, 99 S. Ct. 773 (1979), on preparation of returns for taxpayers who use inventory reserves. In *Thor*, the Supreme Court determined that the Commissioner had properly disallowed an inventory reserve addition based on a formula-type writedown for "excess" goods (that is, quantities in excess of amounts the taxpayer expected to sell in future years), as such a reserve was inconsistent with Treasury regulations. The Commissioner had not challenged a substantially larger reserve used by the taxpayer in the year involved and in prior years for obsolete goods (that is, parts and accessories for tools no longer being produced by the taxpayer). The court did not address the issue of continued use of a consistent method of accounting, since that issue was not before it.

Specifically, questions have been raised, in the context of Statement no. 10 on *Responsibilities in Tax Practice*, as to whether a CPA can prepare a tax return using a *Thor*-type writedown if the taxpayer has consistently used such method, or the method is initiated during the current tax year.

Statement No. 10 discusses whether a CPA should provide, in tax returns, information about positions taken therein that are contrary to the Internal Revenue Code or to interpretations of it by the Treasury Department or the Internal Revenue Service.

A taxpayer consistently using a *Thor*-type inventory reserve (that is, an unsubstantiated formula-type writedown) is required under Section 446(e) of the Code to continue to use that method of accounting until it voluntarily applies for permission to change, or until the IRS initiates a change on audit. The Income Tax Regulations indicate that a consistently used practice or method, even though erroneous, cannot be changed without the permission of the Commissioner, Regulations section 1.446-1(e)(2), examples (6), (7) and (8).

Statement no. 10 on *Responsibilities in Tax Practice* would not require disclosure on the return of the continued use of the reserve because the situation would not be specifically contrary to the issue decided by the Supreme Court in *Thor* in that the continued use of that method would be required under the cited regulations. Therefore, a CPA may prepare a return using a *Thor*-type writedown, without disclosing such method if, but only if, it has been consistently used in prior years. If the Internal Revenue Service were to issue a valid blanket permission to change from a *Thor*-type inventory method to a correct one, the preceding sentence would not apply to the year to which such blanket permission applies.

The Supreme Court in the *Thor* decision did not change the definition of "market value," but rather stated that the prohibited writedown could not be recognized in computing taxable income. Therefore, it is the opinion of the tax division that where a taxpayer has consistently used such a method in the past, it would be proper to continue to check the box on the return indicating that the inventory is valued at "lower of cost or market" without further disclosure.

Finally, the tax division believes that the Supreme Court decision did not rule out the use of all inventory reserves, but only ones which do not meet the requirements of the regulations. A careful examination of the regulations and of *Thor* is advised when a taxpayer wishes to initiate a new reserve so as to determine if the writedown comes within the provisions of the regulations. In making that determination, members should carefully consider the conclusion in Statement no. 10 that a position may not be taken in a return he prepares that lacks reasonable support, even though such a position is disclosed in the tax return. Moreover, Supreme Court decisions, such as *Thor*, interpreting Code sections, are the final authority.

Government Seeks CPAs

The Treasury Department's Office of Tax Legislative Counsel and the Joint Committee on Taxation of Congress have openings on their staffs for CPAs with 5-7 years of public tax practice, preferably with an advanced degree.

Interested persons should contact the following:

- ☐ Robert M. Brown, Accountant-Advisor, Office of Tax Legislative Counsel, Room 4021, Main Treasury Building, Washington, D.C. 20220.
- ☐ Thomas B. Joyce, Joint Committee on Taxation, 1015 Longworth House Office Building, Washington, D.C. 20515.

Draft on Hospital-Related Organizations Exposed

The Institute's subcommittee on health care matters has issued an exposure draft on a proposed statement of position on *Clarification of Reporting Practices Concerning Hospital-Related Organizations*. The draft proposes changes in the AICPA's *Hospital Audit Guide* relating to combined reporting for hospitals and related organizations. Comments should be sent to F. Synowiec, Jr., in the Washington office by October 31. Copies are available from the order department.

**August Video
Journal Available**

The AICPA's August program in its videotape series on current professional issues has been sent to the 44 participating societies. This edition includes two features, roughly 28 minutes each, which a state society may show in tandem or on separate occasions.

The first item consists of a discussion on the past, present and future of the private companies practice section of the division for CPA firms. It features Robert Mellin, the section's executive committee chairman, who responds to questions by AICPA President Wallace Olson on several major issues.

The second feature is designed to help practitioners assist their clients in averting computer fraud. Donald Adams, AICPA vice president and head of the Institute's EDP program, discusses conditions and offers a six point program. He is joined by Douglas Carmichael, AICPA vice president-auditing, who leads a team in discussing the effects on clients of the new computer control guidelines.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

An open meeting of the accounting standards executive committee will be held on October 2-4 in the AICPA boardroom at the New York office. Sessions will start at 9:00 a.m. each day. The following is the agenda:

October 2 - a.m.

- ☐ Reports of committee chairman and FASB representatives.
- ☐ FASB Technical Bulletins. (Consider letter of comment.)

October 2 - p.m.

- ☐ Pension Costs: Major Employee Terminations. (Consider issues paper.)
- ☐ Defined Benefit Pension Plans. (Consider letter of comment.)
- ☐ Pension Disclosures. (Consider letter of comment.)

October 3 - a.m.

- ☐ Contract Accounting. (Report of subcommittee.)
- ☐ Impairment of Value. (Consider issues paper.)

October 3 - p.m.

- ☐ Mortgage Banking: Bulk Purchases. (Consider issues paper.)
- ☐ Push Down Accounting. (Consider issues paper.)

October 4 - a.m.

- ☐ Leasebroker Accounting. (Consider issues paper.)

Auditing Standards

An open meeting of the auditing standards advisory council will be held in New York on September 20 at the Rainbow Room - Hampton Suite, 30 Rockefeller Plaza, starting at 9:00 a.m. The agenda is as follows:

Morning Session

- ☐ Auditing Standards Board Procedures Regarding Consideration of Needs of Small Enterprises. (Discussion.)
- ☐ Auditing Standards Advisory Council Annual Report. (Discussion.)

Afternoon Session

- ☐ Advisory Council Annual Report. (Continue discussion.)
- ☐ Auditing Standards Advisory Council Operating Policies. (Discussion.)

Changes from these notices will be reported in the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

The theme of this year's AICPA conference on federal taxes will be tax planning for small businesses. Set for October 8-9 in Washington, D.C., the conference will focus on such topics as tax audit problems, tax shelters, appeal to the IRS and tax appeal court, and estate planning for small business owners. Speakers include Representative James R. Jones (D-Okla.) and Donald C. Lubick, assistant secretary of the Treasury. The fee is \$150; for further information, contact the AICPA meetings department.

The SEC has proposed two alternative rules that would confirm that accountants wouldn't be liable under the 1933 Securities Act for nonaudited reports that are incorporated by reference in registration statements. The proposal would affect accountants' liability for SAS no. 24 reports. The SEC staff says that the integration of requirements under the 1933 Act and the 1934 Securities Exchange Act for registration statements allows securities issuers to incorporate by reference unaudited financial statements, but this leaves the accountant open for liability.

In Rel. no. 34-16104, the SEC has issued proposed rules limiting management's proxy voting. The proposals would require that shareholders be provided with a proxy card which (1) indicates whether the proxy is solicited on behalf of the issuer's board of directors, (2) permits shareholders to vote for or against individual directors, (3) doesn't confer discretionary authority to vote shareholders' proxies where the shareholders didn't specify a choice. Comments are due by September 19.

The Federal Trade Commission has proposed an exemption for some small companies from the requirement to file pre-merger notification for certain transactions. The proposal would affect those transactions in which at least 15 percent of a company's assets were being acquired and those assets are valued at less than \$15 million or those in which more than half the voting securities of a company are being acquired, provided that the issuing company has both sales and assets of less than \$25 million and the voting securities are valued at less than \$15 million.

The IRS has adopted final rules on the reporting requirements for income tax return preparers. The rules provide that a preparer can satisfy reporting requirements by retention of records rather than by filing Form 5717 or some other filing method. For further information, see the August 23 *Federal Register*.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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The CPA Letter

A Semimonthly News Report Published by the AICPA

**Interim Report on
Smaller Firms Issued**

As mandated at last year's annual meeting, the special committee on small and medium-sized firms, under the chairmanship of Samuel A. Derieux, has prepared an interim report to the membership. It is included as a supplement to this issue of the *Letter*.

**State and Local
Governments Asked
to Join Experiment**

The Institute's state and local government accounting committee is asking hundreds of state and local governments to cooperate in an experiment aimed at improving the manner in which government units account for public funds. An experimentation booklet has been sent to members of such groups as the Municipal Finance Officers Association and the Association of Government Accountants.

Participants are being asked to prepare, for study by the committee, general purpose financial statements based on experimental principles and to complete a questionnaire. Essentially, the experimentation principles, presented in the experimentation booklet, involve application of full accrual accounting to all funds and account groups and consolidation of their financial statements.

The financial statements and questionnaires are to be completed by April 30, 1980. Results of the test program will be published as an aid to government units and to organizations responsible for developing uniform accounting and reporting practices for state and local governments.

**AAA Meets in
Honolulu**

Over 1,350 academics and practitioners attended the American Accounting Association's 64th annual meeting in Honolulu last month. Plenary speakers' topics ranged widely, focusing on accounting, governmental accounting, accountability and the impact of rapid change in the profession. During a luncheon meeting, Joseph P. Cummings, AICPA chairman, said the accounting profession's "positive performance" has helped cushion the impact of "storms" emanating from Washington, D.C. Cummings noted that efforts are being made by the profession to keep government financial reporting standards in the private sector, and he recommended that the academic and practicing arms of the profession interchange personnel in sabbatical-type arrangements.

The AAA's Outstanding Accounting Educator Award for 1979 was presented to George H. Sorter of New York University.

**Section Chairmen
Announced**

Chairmen of the executive committees of the division for CPA firms' two sections have been elected for 1979-80, effective immediately after the AICPA's annual meeting on October 15.

Archibald E. MacKay, Jr., will head the SEC practice section's executive committee. Mr. MacKay is chairman of Main Hurdman and Cranstoun. He succeeds Walter E. Hanson who has chaired the group since its inception in 1977.

Robert A. Mellin of Hood and Strong in San Francisco has been reelected to a second one-year term as chairman of the executive committee of the private companies practice section.

**Interpretation on
Involuntary
Conversions Issued**

The Financial Accounting Standards Board recently issued Interpretation no. 30 which clarifies accounting treatment for certain gains or losses that result from involuntary conversions. Under the interpretation, *Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets*, if a company's inventories, equipment or other nonmonetary assets are stolen or destroyed, the difference between the assets' cost and the amount of any insurance proceeds received would be recognized as a gain or loss regardless of whether those proceeds were used to replace the lost assets.

The interpretation is effective for fiscal years beginning after November 15, 1979. For further information, contact the FASB, Publications Dept., High Ridge Park, Stamford, Conn. 06905.

In another matter, the FASB is considering issuance of a limited-scope amendment to its controversial Statement no. 8, *Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements*, to be effective in 1979. At the same time, the board is continuing its efforts for a comprehensive reconsideration of the statement, with an exposure draft expected before the end of this year.

**SEC Seeks
Applicants for
Fellowship Program**

The Securities and Exchange Commission is seeking applicants for its Professional Accounting Fellow Program which is now entering its eighth year. Two individuals will be selected for two-year terms beginning in late spring.

Candidates should have one or more years' experience at the manager level in public accounting, the academic community or an organization providing equivalent experience. Also, knowledge of technical accounting and auditing literature and the current issues facing the profession is desirable.

Typical work assignments include the study of significant accounting concepts, evaluation of current reporting assignments and liaison with various government and professional accounting groups. Candidates must submit background data and an essay on an SEC accounting issue.

Applications are due by year-end. A brochure describing the program is available from the Office of the Chief Accountant, SEC, 500 N. Capitol Street, Washington, D.C. 20549.

**IFAC Draft on
Principles Governing
an Audit Issued**

The International Federation of Accountants has issued a proposed international auditing guideline describing the basic principles governing the auditor's professional responsibilities which should be exercised whenever an audit is carried out. The draft guideline, *Basic Principles Governing an Audit*, identifies the basic principles as follows: integrity; objectivity; independence; confidentiality; skills and competence; work performed by others; documentation; planning; reviewing accounting systems and internal control; obtaining evidence; reviewing financial information; and reporting.

Comments are due by February 29, 1980, and should be directed to Robert N. Sempier, executive director, IFAC, 1270 Avenue of the Americas, New York, New York 10020.

In a related matter, the Institute has named Russell E. Palmer, Jr., to serve as U.S. representative on IFAC's 15-member governing council. Palmer, chief executive officer of both Touche Ross International and Touche Ross & Co., succeeds Michael N. Chetkovich, former AICPA chairman.

INTERIM REPORT: SPECIAL COMMITTEE ON SMALL AND MEDIUM-SIZED FIRMS

To the Members of the AICPA

Background to Appointment of Special Committee

The development of the public accounting profession has in many respects followed the growth characteristics of the business community which it serves. There are large international accounting firms because there are large international enterprises. There are small local accounting firms because there are small local enterprises. Between the largest and the smallest, there are enterprises which can be well served by local, regional, national or international firms.

There is a continuing process in which businesses are formed and either prosper or founder. Some grow and expand, and they may eventually merge, sell out, or go public. The same process exists with respect to accounting firms. New firms are formed, and some of them prosper while a few may struggle just to get by. Some of them grow and expand, and they may eventually sell out or merge. Others may also grow and expand, but choose to maintain their status as local, regional or smaller national firms.

The elimination of rules prohibiting solicitation, encroachment and advertising has intensified competition in an already competitive environment. There is concern that the larger accounting firms enjoy a disproportionate advantage in the marketplace as a result of their substantial human and financial resources. There is concern that smaller firms may be replaced simply because they are less well known, even though the smaller firms may be providing high quality services. A further factor of recent concern has been the merger of smaller national accounting firms into larger firms causing a higher degree of concentration of clients and a further increase in the resources of a smaller number of very large firms.

These and other concerns were among the factors which led to the adoption of a resolution at the AICPA's annual meeting of October 23, 1978, calling for a special committee of members from small and medium-sized firms.

Charge to the Committee

The stated objective of the committee is:

To study the future viability and prospects of smaller and medium-sized accounting firms which constitute the majority of practice units of the Institute and to develop programs to assure their ability to retain clients of significant size and standing in the financial community in competition with large national and international firms.

The special committee was directed to include in its study the effects of certain discriminatory practices by banks, underwriters, investment bankers, audit committees and other users of financial statements who select or influence the appointment of independent auditors.

In undertaking its assignment the special committee was requested to take into consideration the work of the committee on displacement of CPA firms which resulted in the publication of a booklet entitled "Going Public", originally published in 1972 and revised in 1974.

The special committee was directed to submit a report of its progress to the Board of Directors for transmittal to the council and membership prior to the annual meeting of the Institute to be held in October 1979, and to submit a final report to the annual meeting of the Institute in October 1980.

Approach to the Assignment

During the period from January 1979 through August 1979, the committee held six meetings. At its first meeting the committee concluded that the first part of its assignment was to identify those factors which tend to put a smaller firm at a competitive disadvantage when compared to a larger firm. It was recognized that some of the factors to be identified would be elements of the marketplace, some would be results of policies and practices of firms, and some would be the result of regulatory influences either from outside or from inside the profession. After having identified the factors, the committee would proceed to determine which, if any, of those factors serve some overriding useful purpose, and which factors are arbitrary or based on misunderstandings. It was further recognized that those which are arbitrary or based on misunderstandings serve no useful purpose and may be a disservice to the public as well as a disadvantage for the smaller firms.

The committee could then proceed to determine what can be done to alter or eliminate those factors which in its judgment can and should be modified, and to make recommendations as to how and by whom the changes can be brought about.

The committee began gathering information by inviting three persons to its first committee meeting to provide background information which it was believed would be helpful in carrying out our assignment:

Professor Harold E. Arnett discussed with the committee his study on the viability of the CPA profession, which was conducted under a grant from Arthur Andersen & Co. Because the report had not been completed at that time, Professor Arnett was not in a position to discuss conclusions, but he did discuss techniques employed in gathering information and provided the committee with copies of the questionnaires which were used in his study. Fifty firms, including most of the thirty largest firms, and six associations of CPA firms were interviewed. The report has now been issued and is available.

Robert M. Coffman, chairman of the former committee on displacement of CPA firms, reviewed the work of that committee. During its existence, the committee undertook the preparation of the "Going Public?" booklet for distribution by Institute members, it obtained information about policies of underwriters with respect to the use of accounting firms and the policies of accounting firms with respect to consulting with other firms less experienced in SEC practice, and the committee supported the arrangements made by the AICPA for the consultative services of Andrew Barr (former chief accountant of the SEC) to firms on SEC matters.

Eli Mason discussed his concerns about the future viability of small and medium-sized firms citing in particular the mergers of a number of such firms over the past year. He also discussed the continuing concerns of displacement of smaller firms resulting from recommendations made by major banks or underwriters. He provided the committee with some information about the formation of the National Conference of CPA Practitioners.

Members of the special committee also attended meetings of the private companies practice section executive committee, Advisory Group B and the management of an accounting practice committee to solicit the viewpoints and suggestions for consideration.

Through AICPA publications, the committee requested that members provide it with information and suggestions pertaining to its task. Letters were received from numerous interested and concerned members. Most of these letters were directed at the identification of problem areas, but some contained suggestions to remedy situations of concern to the writers.

Actions Taken

The committee, with the AICPA member relations division and 44 state societies, is sponsoring more than 100 member forums to obtain views of practitioners relative to practices and circumstances some members believe to be disadvantageous to the smaller and medium-sized firms. The questionnaire used in these forums contained 34 questions grouped under the following categories:

- | | |
|--|---|
| <input type="checkbox"/> Client Development Practices | <input type="checkbox"/> Type and Quality of Service |
| <input type="checkbox"/> Firm Reputation | <input type="checkbox"/> Firm Operation and Finances |
| <input type="checkbox"/> Recruiting and Training Staff | <input type="checkbox"/> Professional Structure and Standards |

In addition to answering the questions, participants in the member forums were asked to provide information about the advantages enjoyed by small and medium-sized firms in each of these categories, and to offer suggestions for overcoming any disadvantages whether actual or merely perceived. The forums are being held during the summer and fall of 1979. The responses will assist the committee in identifying the areas of greatest concern to members and providing possible actions which the committee may recommend.

In order to concentrate on the various concerns, five task forces were formed. The task forces and their primary areas of concern are:

1. *Statistics Task Force* — To gather information relative to firms of varying sizes as a factual basis for accurate comparisons, and to evaluate areas where action programs might be effective. Data gathering would include, but not be limited to, information on the number and size of practice units, composition of staff, and income levels.
2. *Professional Activities and Regulation Task Force* — To identify ways of encouraging more active participation in AICPA and state society activities by representatives of small and medium-sized firms, with the objectives of increasing the influence of such firms in the standard setting process and obtaining more programs by these professional societies to benefit these segments of the profession. Consideration will be given to the effects on small and medium-sized firms of the policies and structure of the AICPA and other professional organizations.

To explore the impact of regulation, both internal and external on small and medium-sized firms for the purpose of determining whether or not the benefits to users of financial statements justify the cost of compliance, including the effects of regulation on competition and the viability of these firms.

3. *Firm Management Task Force* — To identify ways in which firms might be more effective in areas such as staff recruitment, training and evaluation, offering a wide range of services, and to recommend ways in which the AICPA, state societies, or others might assist firms in these objectives.

4. *Firm Recognition Task Force* — To study and make recommendations of ways in which the financial community might be better informed of the practices, requirements and quality controls applicable to all firms. The objective is to convince those involved in the auditor selection process that the bigness syndrome should not be a criterion in making that selection, and therefore reports of smaller and medium-sized firms should be more readily acceptable to them.

CPAs in practice with smaller and medium-sized firms strongly believe that certain impressions exist which may prevent their being perceived by some members of the financial community as fully qualified. Most disturbing is the attitude that equates bigness with competence and that the selection of a large firm is a buffer against blame, should anything go wrong. It is felt that this impression is most likely to be held by audit committees, underwriters, bankers, and insurance and bonding companies.

5. *Practice Development Task Force* — To review the behavioral and competitive practices of firms in the area of practice development and client retention, which include but are not limited to advertising, solicitation, underbidding, and public relations programs and practices.

To determine which practices, if any, are considered unfair and to make recommendations to eliminate or minimize such practices.

To make recommendations to assist firms in developing programs and procedures to render the firms competitive in those activities considered acceptable as normal competitive practices in a free marketplace.

Continuing Program

The committee plans to hold public hearings at several locations across the country during November to obtain the views of interested individuals or groups that were not included in earlier interview procedures. The results of these public hearings and the information obtained through the member forums will be considered by the task forces, each of which will make recommendations to the full special committee.

Because the practice of underbidding to effect transfer of an engagement from one firm to another has been mentioned by many as a principal concern, the committee is considering ways to assure that the quality of performance is not adversely affected as a result of low fees.

The committee is also considering the development of a brochure to assist clients in analyzing and comparing audit proposals. Such a brochure might emphasize that all firms are expected to maintain standards of quality regardless of size, and that firms which are members of the AICPA division for firms are all tested for adherence to quality control standards through a peer review program. It may also suggest that clients should carefully weigh all factors so that they could choose accounting firms of a size and character best suited to serve their needs.

The committee will consider procedures by which firms, through group efforts or by cooperating with state societies, can be more effective in areas such as recruitment of promising graduates of the accounting programs of leading colleges and universities.

Conclusion

Good progress has been made in accumulating information which will assist the committee in reaching conclusions and recommendations for inclusion in its final report. It is already evident that many of the forces or factors which tend to place small or medium-sized firms at a competitive disadvantage result from the action of a competitive marketplace, and that no action can or should be taken to modify these conditions of our economic environment. There are, however, some factors the impact of which might be minimized, or perhaps overcome, by actions of the AICPA, the state societies of CPAs and the firms themselves. The committee will continue its study and submit its final report prior to the annual meeting of the Institute to be held in October of 1980.

Respectfully submitted:

Special Committee on Small and Medium-Sized Firms

Lowell A. Baker	Charles Kaiser, Jr.
George L. Bernstein	Bernard Z. Lee
Alan P. Brout	Alex Postlethwaite
W. Thomas Cooper, Jr.	Norman S. Rachlin
Curtis L. Frazier	Donald E. Schmaltz
Morris B. Hariton	Robert S. Siskind
Glenn Ingram, Jr.	Charles A. Taylor
Samuel A. Derieux, chairman	

Accounting Literature Awards Presented

At the American Accounting Association's annual meeting, the AICPA's director of relations with educators presented two \$500 awards and three medallions for outstanding contributions to accounting literature. Determined from nominations of the AICPA accounting literature awards committee and the AAA's committee on notable contributions to accounting literature, the awards went to the following:

- ☐ "Towards a Positive Theory of Determination of Accounting Standards," Professors Ross L. Watts and Jerold L. Zimmerman, University of Rochester, published in the January 1978 *Accounting Review*.
 - ☐ "Current Trends in Corporate Disclosure," Professor William H. Beaver, Stanford University, published in the January 1978 *Journal of Accountancy*.
- Also, Professor David Solomons of the Wharton School of the University of Pennsylvania has won the 1979 *Journal of Accountancy* Literary Award for his article, "The Politicization of Accounting," published in the November 1978 issue.

The award, established in honor of John Lawler, former *Journal* editor and AICPA senior vice president, consists of a \$500 cash prize and a scroll. The award is given to the author of the best article published in the *Journal* during the 12 months ending with the June issue each year, as determined by the magazine's editorial advisory committee.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting and Review Services

The accounting and review services committee will hold an open meeting in Denver on October 4 at the Hilton Inn. The meeting will start at 9:00 a.m. The agenda follows:

Morning Session

- ☐ Financial Information Included in Prescribed Forms. (Discussion of preliminary draft.)

Afternoon Session

- ☐ Special Reports. (Discussion of preliminary draft.)

Federal Taxation

An open meeting of the federal taxation executive committee will be held on October 17-18 at the Hyatt House in Seattle. The initial session will start at 1:30 p.m. and the October 18 session will commence at 9:00 a.m. The agenda follows:

October 17 - p.m.

- ☐ Designation of Division Under Rules 201 and 204 of the Code of Professional Ethics. (Preliminary discussion of subject.)
- ☐ Indexation Task Force Report. (Report of task force.)
- ☐ Statement of Responsibilities in Tax Practice on "Representation of Clients with Conflicting Interests." (Discussion of preliminary draft.)

October 18 - a.m.

- ☐ Addendum to Statements of Responsibilities in Tax Practice Regarding Differences Between the Statements and Preparer Regulations. (Discussion of preliminary draft.)
- ☐ IRS Access to Accountant Workpapers. (Preliminary discussion of subject.)

October 18 - p.m.

- ☐ Preparer Regulations and Survey of Practitioners. (Report of task force.)
- ☐ Underground Economy. (Further discussion of subject.)

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Seven Auditing Interpretations Issued

The staff of the Institute's auditing standards division has prepared four new auditing interpretations and is issuing revisions of three existing ones. Two of the interpretations are on SAS no. 11, *Using the Work of Specialists*:

- ☐ *Applicability of Guidance on the Use of Specialists* states that SAS no. 11 applies when the auditor intends to use the work of a specialist engaged or employed by management to prepare, or assist in the preparation of, amounts or disclosures in the financial statements.
- ☐ *Exclusion of Specialists on the Audit Staff* states that SAS no. 11 applies when a specialist with an auditor's firm provides advisory services to a client and the auditor decides to use that specialist's work as evidential matter.

Two of the interpretations are on SAS no. 2, *Reports on Audited Financial Statements*:

- ☐ *The Materiality of Uncertainties* states that in considering whether to qualify his opinion for an uncertainty, the auditor should consider the potential effect on the financial statement that is most appropriate in the circumstances. The interpretation gives examples of uncertainties that should be evaluated in relation to the balance sheet and of others that should be evaluated in relation to the income statement.
- ☐ *Reporting on an Uncertainty* states that in wording a "subject to" opinion, in most instances it is inappropriate to refer to the effects, if any, "on the financial statements of the ultimate resolution of the matter." It is preferable to refer to the effect of "adjustments as might have been required."

Three interpretations became outdated because they pertained to a specific SAS, APB Opinion, or FASB Statement even though the guidance was applicable by analogy to similar situations. Thus, the interpretations have been rewritten from a more general viewpoint. The revisions are titled:

- ☐ *The Impact on an Auditor's Report of an FASB Statement Prior to the Statement's Effective Date.*
- ☐ *The Effects of Changes in Accounting Principles and Classification on Consistency.*
- ☐ *Reports on Engagements Solely to Meet State Regulatory Examination Requirements.*

The texts of these interpretations will appear in the October *Journal of Accountancy*; the four new ones in the "Official Releases" section, and the three revisions in "Professional Notes."

Final Report on Management Reports Issued

Corporate annual reports should include a report by management on its responsibility for the company's financial statements. This is one of the recommendations in the final report of the Institute's special committee on reports by management which has just been issued. The committee was established to consider the recommendations of the Commission on Auditors' Responsibilities relating to management reports and the representations and assurances that should be included in such a report.

Among the report's other conclusions and recommendations are:

- ☐ The management report should state that management is responsible for all audited and unaudited information in the annual report as well as for judgments and estimates and the selection of generally accepted accounting principles appropriate in the circumstances.
- ☐ The report should include a representation on internal accounting control.
- ☐ The composition and duties of the audit committee as well as the role of the independent auditor should be described.

Copies of the report entitled *Conclusions and Recommendations of the Reports By Management Special Advisory Committee* are available from the AICPA order department at \$1.50, with usual quantity discounts.

Washington Briefs

The SEC, at a recent open meeting, approved a proposed rule that allows companies to sell up to \$2 million of securities without registration. The proposal would allow a company to sell up to \$2 million of securities in a six-month period to an unlimited number of "accredited" purchasers (including institutions and persons who invest at least \$100,000) and to no more than 35 other investors.

In Rel. no. 33-6117, the SEC has issued an updated list of major rulemaking and related regulatory matters likely to be considered or completed by the commission. Topics include: review of Regulation S-X; management reports; reporting on internal control and report on the accounting profession.

The SEC Report to Congress on the Accounting Profession and the Commission's Oversight Role, issued in July (see July Letter), is now available from the Government Printing Office. Copies may be obtained by writing to the Superintendent of Documents, GPO, Washington, D.C. 20402. Copies are \$7 each.

The Institute's federal tax division recently testified before the House Government Operations Consumer and Monetary Affairs Subcommittee on the extent of the "underground economy" and unreported income. Arthur J. Dixon, chairman of the federal taxation executive committee, presented a statement to the subcommittee concerning the underground economy. Single copies of the division's statement, Document Tax 1, are available on written request from the Institute's Washington office, 1620 Eye Street, N.W., Washington, D.C. 20006.

Representative Richard Gephardt (D-Mo.) and several other congressmen have introduced the Social Security Payroll Credit Act of 1979 (S. 1597). The proposal would give participants in the social security system a refundable income tax credit equal to 20 percent of FICA taxes paid in 1980 and 1981. Under the bill, the employer's ordinary and necessary business expense deduction for FICA taxes would be reduced by the amount of the credit taken.

In Treasury Decision 7643, the IRS has issued final regulations relating to tax credits for household and dependent care expenses. The rule clarifies the Internal Revenue Code to provide that prepaid expenses will not be considered employment-related expenses for the purpose of the credit until the services for which the expenses are incurred have been performed.

Final regulations on distributions of undistributed taxable income previously taxed to shareholders of small business corporations were issued recently by the IRS. The rules apply to taxable years beginning after December 31, 1975.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
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The CPA Letter

A Semimonthly News Report Published by the AICPA

Highlights of the Board of Directors' Meeting

The following were among the actions taken by the AICPA's board of directors at its meeting on September 20-21:

- ☐ Authorized for exposure and comment the report of a subcommittee of the board of examiners on the content of a possible special examination for foreign licensed accountants. No position has been taken on the desirability of such an examination. Copies should be available in early November.
- ☐ Received an interim report from the special committee on small and medium-sized firms, the text of which appeared in the September 24 *Letter*.
- ☐ Authorized the appointment of a special committee to review the bylaws for possible changes which might improve the Institute's effectiveness.
- ☐ Approved the appointment of a special committee to gather information on the impact of the SEC's Accounting Series Release no. 264 which deals with the relationship of nonaudit services to audit independence.
- ☐ Accepted the resignation of John Sawhill as a public member of the board effective with his confirmation as deputy secretary for energy.
- ☐ Accepted the nominees to the executive committees of the private companies practice section and the SEC practice section.
- ☐ Agreed that the Institute would participate as amicus curiae in the appeal of *U.S. vs. Arthur Andersen & Co.-Good Hope Industries* dealing with IRS access to tax accrual work papers.
- ☐ Received, with regret, a reminder from Wallace E. Olson of his desire to retire from the presidency of the AICPA at the age of 60. Mr. Olson said he intends to retire no later than July 1981 or sooner if a replacement is available at an earlier date. The board authorized the appointment of a search committee to assist it in finding candidates for this position.

Two SASs on Supplemental Information Exposed

The Institute's auditing standards board has issued the following two exposure drafts of proposed statements on auditing standards:

- ☐ *Reporting on Required Supplemental Information* provides guidance to the independent auditor on the nature of procedures to be applied to supplemental information required by the Financial Accounting Standards Board and the form and content of the auditor's reporting on such data. The draft would require the auditor to apply certain limited procedures and to report whether he is aware of any material modifications that should be made to the required supplemental information for it to conform with the FASB guidelines.
- ☐ *The Effect on the Auditor's Report When Additional Information is Presented* would supersede section 610 of SAS no. 1, *Codification of Auditing Standards and Procedures*. It provides guidance on the form and content of reporting when the auditor submits to his client or others a document containing information in addition to the client's basic financial statements and the auditor's standard report thereon.

Comments on both drafts are due by November 30 and should be directed to the auditing standards division. Copies are available from the AICPA order department.

Practitioners and Academicians Seek Accreditation Standards

Proposed standards for the accreditation of academic accounting programs are being exposed for comment by the American Assembly of Collegiate Schools of Business (AACSB) prior to a public hearing to be held at the Dallas Hilton Hotel on February 14-15, 1980. These proposals result from the joint efforts of the AACSB, the AICPA, the American Accounting Association, the National Association of Accountants and the Financial Executives Institute.

The proposed standards would apply to three programs: the bachelor's degrees in accounting, master's degrees in business administration with concentrations in accounting and master's degrees in accounting. The highest level would be required for the master's degree in accounting, which would include five-year programs in professional accounting. These proposals call for certain minimum percentages of professional certification by faculty members who would have "initiating responsibility and significant influence" in key areas of the program.

Requests for oral presentations at the public hearing should be sent to the AACSB by December 15. The address is 11500 Olive St. Road, Suite 142, St. Louis, Missouri 63141. Copies of the exposure draft and related material can be obtained from the AICPA's division on relations with educators.

Why Companies Disagree with Their Auditors

SEC-regulated companies that change auditors are required to report to the commission any disagreements over accounting principles or auditing procedures that occurred between them and their auditors before the change. The following table summarizes the types of disagreements that have been reported on Form 8K filed with the SEC in the last five years. It shows a declining trend in the number of disagreements with recoverability of asset costs and timing of revenue recognition representing half of these disagreements.

Types of Disagreements with Auditors

	Year of the auditor change					Total
	1974	1975	1976	1977	1978	
Recoverability of the cost of some or all assets	12	11	12	10	10	55
Timing of expense recognition	10	15	17	6	6	54
Timing of revenue recognition	10	15	9	8	11	53
Necessity for certain audit procedures	6	9	5	4	3	27
Necessity for accruing a liability or disclosing a contingent liability	2	11	6	4	2	25
Manner or need for disclosure of transactions with related parties	6	5	2	3	0	16
Balance sheet or income statement classification of an item	0	5	6	2	2	15
Adequacy of internal control	2	1	1	4	3	11
Whether inaccurate information was given to the auditor	1	4	2	1	1	9
Necessity for disclosure of apparently illegal actions	0	2	2	3	1	8
Miscellaneous types of disagreements	1	6	4	1	1	13
Types of disagreement unspecified ...	2	3	3	1	2	11
Total number of disagreements ..	52	87	69	47	42	297
Number of companies reporting disagreements	33	50	55	32	32	202

Peer Review Guidelines for Smaller Firms Are Revised

The peer review committee of the private companies practice section (PCPS) is issuing revised guidelines that do not require smaller firms to have a quality control document for a peer review. The new guidelines, which apply to firms with up to about 20 professionals, put primary emphasis on a review of selected accounting and auditing engagements for the evaluation of a firm's quality control, rather than on documentation of policies and procedures.

Here is what the new guidelines do:

- ☐ Provide a brief questionnaire which, when completed, describes the firm's quality control system. It eliminates the need for a quality control document.
- ☐ Specify the minimum documentation required for seven of the nine quality control elements identified in SAS no. 4 and cited in the Peer Review Manual. (No documentation is required for two of these elements.)
- ☐ Set forth review procedures that, wherever possible, seek evidence of an effective quality control system in engagements rather than in documentation of the system itself.

PCPS members will receive a complete set of the new guidelines to supplement the existing manual. Information on the revisions and the questionnaire is being mailed to other practice units with 20 or fewer AICPA members.

Report on PCPS Conference Issued

The private companies practice section of the Institute's division for CPA firms recently issued a report to section members which answers many of the questions raised at the PCPS conference held last spring. The questions and answers are grouped in five categories: membership and membership requirements; peer review; sanctions; executive committee; and accounting and review services.

The answers, notes Robert A. Mellin, chairman of the PCPS executive committee, are informal responses and should not be regarded as official pronouncements of the Institute. Next year's conference is April 28-29 in Miami.

Recent Publications

Index to Accounting and Auditing Technical Pronouncements — This publication shows what technical pronouncements may bear on certain practice situations. It covers all technical standards and semi-authoritative material issued by the AICPA, FASB, CASB and SEC in effect as of July 1, 1979. Price is \$9.50; \$7.60 to members.

Proposals for the Improvement of Subchapter K — This report, by a special task force formed by the Institute's federal taxation division, studies the problems that have arisen since codification in the 1954 Internal Revenue Code of the various regulations, rulings and court cases governing the tax treatment of partnerships. Changes which the task force believes would reduce the difference in tax treatment between partnerships and other entities are proposed. Price is \$7.50; \$6 to members.

A brochure describing the AICPA Library is being sent to all new Institute members starting this month and is available to other members upon request. The booklet describes the library's operations and procedures and how to use the Accountants' Index.

The Institute's public relations division has prepared a brochure as a response to the Securities and Exchange Commission's ASR 264 on nonaudit services. The booklet, *Do Management Advisory Services Impair Your Auditor's Independence?*, is directed to companies' boards of directors and audit committees, and is being distributed to smaller and medium-sized firms. Also, up to 100 copies are available free; additional quantities of 100 are \$8.

These publications may be obtained from the AICPA order department.

ASB Sets Hearing on Revision of Standard Report

The Institute's auditing standards board will hold a public hearing on issues associated with revision of the auditor's standard report. The hearing will be December 18-19 at the AICPA boardroom in New York, starting at 9:00 a.m. and continuing, if necessary, until 5:00 p.m. each day. The board is seeking information from interested users with the following objectives in mind:

- ☐ Determine participants' understanding of the current auditor's standard report.
- ☐ Obtain views on how to communicate more effectively to users the nature of financial statements and the auditor's role concerning audited financial statements.
- ☐ Obtain views on whether the auditor's report should be changed, and if so, the broad direction of change.

A paper explaining the broad issues relating to the standard report on audited financial statements is available. The paper explains each issue including the current form of auditor's report, research findings, pro and con arguments, and illustrative language showing how a particular concept or message might be conveyed.

Those wishing to make oral presentations or submit written comments should write D. R. Carmichael, vice president — auditing, at the Institute. Written comments and summaries of proposed oral presentations are due by December 3.

FASB Issues Statement on Changing Prices

The Financial Accounting Standards Board has issued a statement requiring some 1,200 major companies to disclose the effects of changing prices as supplementary information in their annual reports. FASB Statement no. 33, *Financial Reporting and Changing Prices*, deals with both general inflation and changes in the prices of certain specific types of assets. It requires these companies to report the following:

- ☐ Income from continuing operations adjusted for the effects of general inflation.
- ☐ The purchasing power gain or loss on net monetary items.
- ☐ Income from continuing operations on a current cost basis.
- ☐ The current cost amounts of inventory and property, plant and equipment at the end of the fiscal year.
- ☐ Increases or decreases in current cost amounts of inventory and property, plant and equipment, net of inflation.

The statement applies to companies having assets of more than \$1 billion or those whose inventories and property, plant and equipment (before deducting depreciation) total more than \$125 million.

These companies are also to present a five-year summary of selected financial data, such as information on income, sales or other operating revenues, net assets, dividends per common share, and market price per share, adjusted to reflect the effects of changing prices.

The statement will be effective for fiscal years ended on or after December 25, 1979. However, initial presentation of current cost data may be postponed to the first annual report for a year ending on or after December 25, 1980.

In announcing the statement, Donald J. Kirk, FASB chairman, said he expected the Securities and Exchange Commission to alter its reporting requirements for the 1200 major companies in light of this statement. He referred particularly to ASR no. 190 on replacement cost data.

Also, Kirk said that in view of the importance of clarity to users of financial information, an advisory group is being organized to develop and publish illustrative examples of the disclosures noted in the statement. The education disclosure task force, chaired by Thomas O. Thorsen, vice president and comptroller of General Electric Company, is expected to publish a booklet of these examples by year-end.

**Other Recent
FASB Actions**

The FASB, in a flurry of activity, released the following documents recently:

- ☐ Statement no. 31, *Accounting for Tax Benefits Related to U.K. Tax Legislation Concerning Stock Relief*, specifies how an enterprise subject to U.S. generally accepted accounting principles should account for income taxes relating to recent changes in the United Kingdom tax law concerning "stock relief." This permits an income tax deduction for increases in inventory.
- ☐ Statement no. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters*, is an amendment to APB Opinion no. 20, *Accounting Changes*. The statement specifies that the specialized accounting and reporting principles and practices contained in the AICPA Statements of Position and Guides on accounting and auditing matters as designated in FAS no. 32's appendix, are preferable accounting principles for purposes of justifying a change in accounting principles as required by APB Opinion no. 20.
- ☐ Proposed interpretation, *Applicability of APB Opinion no. 21 to Television Film License Agreements*, would clarify that amounts owed by broadcasters under television film license agreements should be accounted for in the same manner as other contractual obligations to pay money on fixed or determinable dates. Comments are due by November 30.
- ☐ Proposed interpretation, *Treatment of Stock Compensation Plans in EPS Compensation*, is aimed at clarifying the treatment of stock options, including stock appreciation rights and other variable stock option or award plans, in earnings per share computations. The proposal also provides guidance on the EPS treatment of combination plans that allow an employee to choose among various alternative stock option or right awards. Comments are due by November 30.

Contact the FASB, Publications Dept., High Ridge Park, Stamford, Conn. 06905.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

An open meeting of the accounting standards executive committee will be held on November 6-8 at the Capital Hilton Hotel in Washington, D.C. starting at 9:00 a.m. each day. The agenda will be reported by the meetings telephone information service when it becomes available.

Auditing Standards

The auditing standards board will hold an open meeting on October 31-November 1 in the boardroom of the AICPA's New York office from 9:00 a.m. to 5:00 p.m. The agenda follows:

October 31 - a.m.

- ☐ Auditing and Computer Systems. (Report of task force.)
- ☐ Going Concern. (Discussion of preliminary draft.)

October 31 - p.m.

- ☐ Audit Evidence. (Consider draft for exposure.)

November 1 - a.m.

- ☐ Reporting on Internal Accounting Control. (Consider draft for exposure.)
- ☐ Oil and Gas Reserve Data Audit Guide. (Report of task force.)

November 1 - p.m.

- ☐ Oil and Gas Reserve Data Audit Guide. (Continuation of report.)
- ☐ Auditor Involvement with Required Supplemental Information. (Consider draft for exposure.)
- ☐ Reporting on Internal Accounting Control. (Continue consideration for exposure.)

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

The Securities and Exchange Commission recently adopted final rules requiring oil and gas producers to include a supplemental earnings summary of oil and gas producing activities prepared in the basis of reserve recognition accounting (RRA). In ASR no. 269, the SEC requires these companies, for calendar year 1979 and thereafter, to present the current year's additions and revisions to proved reserves of oil and gas as well as the costs associated with the discovery, development and production of the reserves and all nonproductive costs. Also, in ASR no. 270, the commission agreed to amend its rules to permit oil and gas reserve information and the supplemental RRA summary to be designated "unaudited" for fiscal years ending before December 26, 1980.

In Rel. no. 33-6127, the SEC has issued proposed rules on accountant liability for reports on unaudited interim financial information under the Securities Act of 1933. Two alternative rules are being proposed, either of which, if adopted, would have the effect of excluding accountants from potential liability under section 11(a) of the 1933 Act for a report filed under SAS no. 24, *Review of Interim Financial Information*. Comments are sought by November 15.

The Cost Accounting Standards Board has approved Standard no. 420 for accounting for independent research and development costs and bid and proposal costs. It provides increased consistency and uniformity in the definition and allocation of such costs. The board expects the standard to become effective March 15, 1980.

Three approved master and prototype defined benefit Keogh pension plans and an information package containing suggested plan language have been produced by the IRS. The plans and information package are available for inspection and reproduction at the IRS national office in Washington, D.C., and at the reading rooms in the seven IRS regional offices. Local offices have a new application form for this type of plan.

The AICPA National Conference on Banking is set for December 5-6 at the Hyatt Regency O'Hare Hotel in Chicago. Topics to be discussed include accounting for securities, reporting the impact of inflation, and accounting for loan fees and sales of mortgage-backed securities. Registration is \$195; for further information, contact the Institute's meetings department.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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The CPA Letter

A Semimonthly News Report Published by the AICPA

AICPA Annual Meeting Covers Panorama of Topics

More than 2,900 CPAs, spouses and their guests attended the Institute's 92nd annual meeting in New Orleans, October 14-16. They participated in a wide variety of technical meetings as well as sampling the Crescent City's cultural and social attractions.

The first official function was the meeting of council on Saturday, October 13 (see page 2). The annual business meeting, chaired by outgoing chairman Joseph P. Cummings, was called to order on Monday morning. Special achievement awards were presented at the meeting, including the AICPA Gold Medal for Distinguished Service and the Sells Awards to those CPA candidates achieving the highest grade totals on the Uniform CPA Examination.

Eli Werlin of New York presented the chairman with petitions that propose three amendments to the AICPA's bylaws. The proposals call for allowing a mail ballot to amend the bylaws or Rules of Conduct by petition of at least 500 members without council authorization of the ballot, reduction of the number of ex-officio members of council, and providing an alternative method for the election of the nominations committee. Chairman Cummings referred the proposals to a special committee recently authorized by the board of directors to review the Institute's bylaws (see October 15 Letter).

Among the guest speakers during the next two days were:

- ☐ General Motors Chairman Thomas A. Murphy, who looked at the U.S. economic scene.
- ☐ *Business Week* editor-in-chief Lewis H. Young, who spoke on the nation's political and economic picture.
- ☐ George Will, Pulitzer prize-winning Washington journalist, who provided a political perspective on the nation's activities.
- ☐ Political satirist Mark Russell, who provided a humorous overview of Washington's activities.

Simultaneous panel sessions, which constituted the bulk of the program, included discussions on Washington, federal taxation, division for firms and peer review, accounting and auditing standards, and accounting and review services, among others.

A 60-minute *Video Journal* program focusing on highlights of the annual meeting will be available to state societies shortly.

AICPA Officers Elected for 1979-80

William R. Gregory of Washington headed a slate of AICPA officers that was elected by the Institute's governing council at its October 13 meeting. In addition to Mr. Gregory, managing partner of Knight, Vale & Gregory, Tacoma/Seattle, who became chairman of the board of directors, William S. Kanaga, chairman of Arthur Young & Co., was elected vice chairman of the Institute.

The new vice presidents for the coming year are Raymond C. Lauver, national director of accounting services, Price Waterhouse & Co., New York; Robert A. Liberty, managing partner, Moss, Adams & Co., Seattle; and Richard D. Thorsen, managing partner, Thorsen, Campbell, Rolando & Lehne, Minneapolis. Reelected treasurer was Harry R. Mancher, partner in charge of New York region, Ernst & Whinney.

Council Meeting Highlights

At its October 13 meeting, the AICPA council adopted resolutions to reorganize the Joint Trial Board Division by reducing its size from more than 360 to approximately 77 members without changing the division's machinery or operations. Trial Board members may not serve on state CPA society ethics committees or boards of accountancy and the reduction will make available a large number of persons for those bodies. In other areas, council took the following actions:

- ☐ Approved a resolution conforming the council resolution on characteristics of a professional corporation to terms in the Code of Professional Ethics.
- ☐ Elected William C. Rescorla of Michigan to fill a vacancy on the board of directors.
- ☐ Received the interim report of the special committee on small and medium-sized firms (see September 24 Letter).
- ☐ Elected the 1979-80 council.

Cummings Sees Solid Progress for Future

Elaborating on his joint statement with the president in the Institute's annual report, outgoing AICPA Chairman Joseph P. Cummings said he considered the past year "a sort of cooling-off period — one in which we have made solid progress in implementing the many initiatives of the preceding two years."

In his farewell address at the Institute's annual meeting October 15, Mr. Cummings noted three areas which he felt needed further emphasis:

- ☐ The Institute's breakfast program with members of Congress and their staffs will benefit the profession, the government and the public, and hopefully will involve all states by 1981. Currently, 13 states are involved.
- ☐ The profession, he said, must remain strong in resisting the SEC's attempts in ASR 264 on scope of services "through innuendo to change corporate attitudes regarding advisory services on the part of auditors."
- ☐ Current cost accounting "is a good step" in the direction of developing meaningful financial reporting in the face of today's double-digit inflation.

In closing, the outgoing chairman called for the profession "to put aside our internal differences and work together so that we could enlarge our responsibilities and fulfill our proper role in society."

Incoming Chairman Urges "Reasoning Together"

Looking ahead, William R. Gregory, the AICPA's new chairman, said it is now time "to stand back and take a fresh look at where our profession is headed." New changes are inevitable, he added, and "it is incumbent upon us to anticipate, consider, and plan for them rather than to wait and then react." Several areas of concern will hold difficult challenges in the future, said Mr. Gregory, in his inaugural remarks at Tuesday's luncheon.

- ☐ Relations with government, particularly the profession's working with Congress, federal agencies and state legislatures.
- ☐ Quality of work "will be the focal point of the profession in the early 1980's."
- ☐ Focus on scope of services compels accountants to "address the question of how many types of expertise the profession can and should encompass."

Another key area focused upon was the continued need for internal unity within the profession. "Practitioners must exercise self-restraint to avoid self-destruction," Mr. Gregory concluded, in calling for a reasoning together of the varying interests among accountants.

Mautz and Scott Receive AICPA Gold Medals

The accounting profession's highest award, the AICPA Gold Medal for Distinguished Service, was awarded to Robert K. Mautz of Michigan and Stanley J. Scott of Texas at the Institute's annual meeting.

Mr. Scott, senior partner of the Dallas-based firm of Alford, Meroney & Co., has distinguished himself in innumerable positions including the presidency of the Texas Society and various positions of leadership with the AICPA, culminating in his election as chairman of the AICPA in 1977. He has also been a member of the Financial Accounting Foundation, which monitors the Financial Accounting Standards Board.

Distinguishing himself in both academe and practice, Mr. Mautz achieved national recognition through his teaching, writings in accounting, and involvement in the policy-making activities of the profession. Now serving as director of the Paton Accounting Center at the University of Michigan, he had previously served on numerous committees of the American Accounting Association and as a member of the Cost Accounting Standards Board. Mr. Mautz was also a member of the committee on auditing procedure, served both on the AICPA's council and board of directors, and as a member of the commission to study the common body of knowledge for CPAs.

NASBA Elects Officers for 1979-80

At its 72nd annual meeting at Lake Buena Vista, Florida, on September 24-27, the National Association of State Boards of Accountancy elected the following officers for 1979-80: *President* — Thomas F. Cardegna, chairman of the department of accounting at the University of Baltimore; *President-Elect* — Robert C. Ellyson, partner, Coopers & Lybrand, Miami; *Vice President* — A. Leighton Platt, partner, Peat, Marwick, Mitchell & Co., Portland, Oregon; Robert R. Gignac, partner, Arthur Andersen & Co., Chicago; and Ross C. Cramer, partner, Waller & Woodhouse, Norfolk, Virginia; *Treasurer* — Sylvia Duncan, own account, Stillwater, Oklahoma.

The two-and-a-half-day meeting also focused on major issues facing the regulation of the accounting profession and the responsibilities of state boards of accountancy.

Standard on Comparative Financial Statements Issued

The Institute's accounting and review services committee's second statement on standards for accounting and review services will be mailed to all members shortly. SSARS no. 2, *Reporting on Comparative Financial Statements*, establishes standards for reporting on comparative financial statements of a nonpublic entity when financial statements of one or more periods presented have been compiled or reviewed in accordance with SSARS no. 1, *Compilation and Review of Financial Statements*. Examples of reports appropriate for continuing accountants and predecessors are included.

In response to comments received from practitioners, the statement permits a continuing accountant who previously issued a disclaimer of opinion in accordance with SAS no. 1, section 516, to reissue his report on the prior-period financial statements or to include in his compilation or review report on the financial statements of the current period a description of the responsibility assumed for the financial statements of the prior-period. A continuing accountant may, alternatively, comply with the compilation or review standards in SSARS no. 1 with respect to the prior-period financial statements and report on them accordingly.

The statement will be effective for reports on comparative financial statements for periods ending on or after November 30, 1979, with earlier application encouraged.

FASB Issues Statement on Interest Costs

The Financial Accounting Standards Board recently issued Statement no. 34, *Capitalization of Interest Cost*. The statement requires capitalization of interest costs incurred in financing certain assets that require a period of time to prepare them for their intended use. Examples are assets that an entity constructs for its own use, such as new facilities, and assets intended for sale or lease that are constructed as discrete projects, such as ships or real estate.

Under the new ruling, interest capitalization is required for those assets if its effect, compared with the effect of expensing interest, is material. However, interest cannot be capitalized for inventories that are routinely manufactured or otherwise produced in quantities on a repetitive basis.

The statement is effective for fiscal years beginning after December 15, 1979; with earlier application encouraged. For further information, contact the FASB, Publications Dept., High Ridge Park, Stamford, Conn. 06905.

May 1979 Sells Award Winners Announced

For the May 1979 Uniform CPA Examination, 53,969 candidates completed a total of 196,987 papers — both new records for May examinations. Elijah Watt Sells Awards are presented to those CPA candidates who have taken all four sections of the examination and achieve the highest grade totals.

The winner of the Sells Gold Medal, given for the highest grade total on the examination, was Rodolfo E. Pita of Miami. Pita, a graduate of Florida International University, is with the Miami office of Touche Ross & Co.

The Silver Medal, the second highest award, was won by William G. Garner of Greenville, North Carolina. A graduate of East Carolina University, Garner is now secretary-treasurer and director of operations for Garner Wynne Manning, Inc., a service merchandiser, in Greenville.

Also, the Sells Bronze Medal for the third highest grade total was won by Peter J. Cyffka of Canoga Park, California. Cyffka is presently a Master of Business Administration degree candidate at the University of Southern California, where he had graduated summa cum laude in January 1979.

Also, 80 certificates with high distinction will be awarded. The presentation of the Sells Award Medals was made during the annual meeting.

In addition, the Sells Medals for the November 1978 examinations have been awarded (see April 9 Letter). The Gold Medal co-winners are Stephen P. Chang of New York City and Rebecca L. Wolf of Madison, Wisconsin. Margaret Appolony of Largo, Maryland, is the winner of the Silver Medal, while the Bronze Medal was awarded to Franklin H. Butterfield of Lehigh Acres, Florida, and Mohamed S. Heakal of Wayzata, Minnesota.

AICPA Member Suspended

On August 15, 1979, a hearing panel of the Joint Trial Board Division's Regional Trial Board XI voted to suspend the AICPA membership of Sherwood F. Schank of New York City for two years for having departed from generally accepted auditing standards and generally accepted accounting principles in violation of Rules 202 and 203 of the Code of Professional Ethics. The panel also decided that he be required to complete 40 hours of CPE in auditing, reporting and accounting in each of the two years of his suspension. If he does not meet these requirements, his membership will be terminated.

The hearing panel found that the member violated generally accepted standards of field work and reporting in connection with workpapers and auditors' reports on the financial statements of a client for 1974 and 1975 and that the statements and reports failed to conform with generally accepted accounting principles.

Mr. Schank, who was present at the hearing, did not request a review of the decision and it therefore became effective on September 14, 1979.

AICPA Conference Focuses on Small Business

Congressional and Treasury Department officials outlined probable tax developments in coming months for 350 attendees at the AICPA fourth national conference on federal taxes in Washington, October 8 and 9. The focus of the conference was on the tax problems of small business.

Rep. James R. Jones (D-Okla.), a member of the Ways and Means Committee, predicted that the "10-5-3" capital cost recovery bill he co-authored will be the centerpiece of any forthcoming tax legislation, as it affects business. He forecast a tax cut, to take effect in late 1980 or early 1981, of at least 20 billion dollars, with three fourths of the cut going to individuals and the balance to business. Inflation, he said, may force an even larger cut — perhaps 25 to 30 billion dollars.

Jones also expects resolution soon of the question of the carryover basis for inherited assets. "Some of the people in my district," he said, "have been waiting three or four years to die."

Other speakers included Singleton B. Wolfe, assistant IRS commissioner, and Murray H. Falk, special trial judge of the U.S. Tax Court.

For further information, see the December *Journal of Accountancy*.

Recent AcSEC Actions

At its meeting earlier this month, the Institute's accounting standards executive committee took the following actions —

A. Approved letters of comment to the FASB on:

- ☐ FASB technical bulletins
- ☐ Accounting and reporting by defined benefit pension plans
- ☐ Disclosure of pension and other post-retirement benefit information
- ☐ Reporting intercorporate tax allocations

B. Approved issues papers to the FASB on:

- ☐ Accounting by investors for distributions in excess of their investments in a joint venture (an addendum to the division's issues paper on joint venture accounting)
- ☐ Push down accounting
- ☐ Accounting for bulk purchases between mortgage bankers

C. Approved plans for exposure and public hearings on:

- ☐ Proposed statement of position on accounting for performance of construction-type and certain production-type contracts
- ☐ Proposed revision of audits of construction contractors

Recent AICPA Publications

The international accounting standards committee's Standard no. 13, *Presentation of Current Assets and Current Liabilities*, is now available. The standard (see July Letter) deals with the meaning and presentation of current assets and current liabilities in the balance sheet. Price is \$2.25, with usual discounts.

Financial Report Survey no. 19: Illustrations of Management Reports on Financial Statements — This report surveys the application of the conclusions and recommendations of the Institute's special committee on reports by management (see September 24 Letter). The examples are from the published annual reports of the more than 8,000 companies stored in the AICPA National Automated Accounting Research System. Price is \$8; \$6.40 to members.

A paperback version of the Institute's looseleaf subscription service, *Audit and Accounting Manual* (see June 25 Letter), is now available. Like the looseleaf manual, the paperback will include new material which updated the service in October. Price is \$8 for members only; non-members may obtain the paperback through the Commerce Clearing House.

All publications may be obtained from the AICPA order department.

Washington Briefs

The Internal Revenue Service recently raised the standard auto mileage deduction that can be claimed in lieu of actual expenses incurred. The new rate for 1979 will be 18.5 cents, instead of 17 cents, per mile for the first 15,000 miles of business-related driving. The current 10-cent rate for driving in excess of 15,000 miles and for use of a fully depreciated car remains the same.

Treasury Secretary G. William Miller has announced the appointment of six new members to the Treasury Small Business Advisory Committee. J. Fred Kubik, F. B. Kubik & Company, Wichita, Kansas, who is chairman of the Institute's small business taxation subcommittee, was one of those named to the committee.

Several members of the House Ways and Means Committee have sponsored compromise legislation on the tax status of independent contractors. The bill, HR 5460, requires a flat 10 percent withholding for workers considered to be independent contractors. It also contains a safe harbor section that provides five alternative standards for determining whether individuals are employees for purposes of employment taxes.

The SEC has issued Staff Accounting Bulletin no. 35 which deals with application of financial accounting and disclosure rules for oil and gas producers. It contains staff views of areas such as estimating quantities of proved oil and gas reserves, computing future net reserves, disclosing reserve data, and calculating income taxes under reserve recognition accounting (RRA).

Senator Gaylord Nelson (D-Wis.) has introduced a bill which would adjust the unified credit against estate and gift taxes to take into account the rate of inflation. The bill, S 1825, would adjust the federal estate exemption levels for 1979, 1980 and 1981. The bill is aimed at providing relief from inflation for owners of many family farms and small businesses.

Rules proposed by the SEC on internal accounting control could make audit costs rise as much as 20 percent annually, according to a study just released by the Financial Executives Institute. The study concludes that the SEC had "little, if any, basis for its statement regarding the costs (and benefits) of the proposed rules;" and, second, there is little merit in the SEC's view "that a required audit of internal accounting controls would reduce the annual audit fees."

The CPA Letter

American Institute of Certified Public Accountants, Inc.
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The CPA Letter

A Semimonthly News Report Published by the AICPA

SEC to Waive Replacement Cost Rules

In a recent release (ASR no. 271), the Securities and Exchange Commission repealed its rule requiring replacement-cost information from some 1,000 major companies (ASR no. 190) once the requirements of the Financial Accounting Standards Board's Statement no. 33, *Financial Reporting and Changing Prices*, (see October 15 Letter) are fully effective. The SEC will continue its replacement cost rule in effect for fiscal years ending on or after December 24, 1980, but will provide an automatic waiver for registrants electing voluntarily to implement fully the provisions of FAS no. 33 in their 1979 annual reports.

The SEC rule, adopted in 1976, requires certain companies to calculate in annual reports to the commission what it would cost in current dollars to replace existing "productive capacity." The FASB statement requires some 1,200 major companies to report constant dollar information in 1979 annual reports and current cost information in 1980 reports. Termination of the SEC's rule is effective with the second stage of the FASB's standard.

In a statement, SEC chairman Harold M. Williams said that FAS no. 33 "is more comprehensive than the commission's replacement cost rule, in that it requires information on both a constant-dollar and a current-cost basis."

Because of the nature of the information regarding the effects of changing prices "and a desire to again encourage meaningful experimentation," Williams added that the commission will extend the safe harbor rule that now exists for disclosing replacement cost data to disclosures under FAS no. 33. The FASB also announced that it will issue proposals in the near future extending current cost requirements to certain areas thus far exempted, such as natural resources and real estate.

Guide on Review of a Financial Report Exposed

The Institute's forecasts and projections task force has prepared an exposure draft of a proposed guide, *Review of a Financial Forecast*. The draft describes procedures that an accountant should apply in a review of a financial forecast, and provides guidance on the form and content of the accountant's report on it.

Management, which has the ultimate responsibility for the forecast, including the underlying assumptions, may enlist an accountant in preparing the forecast. However, regardless of the extent of the accountant's participation, the forecast assumptions remain management's responsibility. As required by the AICPA Code of Professional Ethics, the accountant should not permit his name to be used in conjunction with any forecast "in a manner that may lead to the belief that he vouches for its achievability," notes the draft.

Comments on the draft are due by February 28, 1980, and should be directed to the Institute's auditing standards division. Copies of the draft will be available shortly from the AICPA order department.

Leisenring to Chair ASB

James J. Leisenring has become chairman of the Institute's auditing standards board, succeeding Philip B. Chenok. Leisenring is a partner and director of accounting and auditing at Bristol, Leisenring & Co., a local firm in Battle Creek, Michigan.

**AICPA Benevolent
Fund Seeking
Support**

The Institute's Benevolent Fund is again seeking contributions from members to provide much-needed help to CPAs and their families who find themselves in financial difficulty. Since 1933, the fund has been providing relief for needy members of the Institute and their families. The fund is supported solely by AICPA members. Last year some 3,500 members contributed to the fund, and assistance totaled \$90,270 to more than 25 needy cases during the year. Your donations will enable the fund to continue assistance to these and other CPAs and their families. For information, contact Jim Flynn, at the Institute.

**Two AICPA Members
Expelled:
Six Suspended**

Section 7.3.1 of the Institute's bylaws provides that membership in the Institute shall be suspended without a hearing for conviction of a crime defined as a felony under the laws of the convicting jurisdiction and that membership shall be terminated if the conviction is final.

- ☐ On September 7, 1979, the membership of John K. Dees of Fresno, California, was terminated following his felony conviction for conspiracy to defraud the United States in connection with a scheme to take over the assets of a publicly-held corporation.
- ☐ On August 14, 1979, Charles A. Carter of Jackson, Mississippi, was notified that his membership was suspended following his felony conviction of false pretense in the Circuit Court of Hinds County, Mississippi. An appeal was taken by Mr. Carter and is pending in the Mississippi Supreme Court.

Section 7.3.2 of the Institute's bylaws provides that membership in the Institute shall be suspended without a hearing should the member's certificate as a certified public accountant be suspended as a disciplinary measure by any governmental authority and that membership shall be terminated if the member's certificate is revoked.

- ☐ On October 7, 1979, the membership of H. Jim Uchida of Oakland, California, was terminated following revocation of his CPA certificate as a disciplinary measure by the California State Board of Accountancy.
- ☐ The membership of Clarence J. Smith, Jr., of Phoenix, Arizona, has been suspended from July 17, 1979, to July 17, 1980, coincident with the suspension of his CPA certificate as a disciplinary measure for a similar period by the Arizona State Board of Accountancy.

Also, the memberships of the following Institute members were suspended retroactively upon the recent receipt of information from the Arizona State Board of Accountancy that their CPA certificates had been suspended as a disciplinary measure for similar periods by the board.

- ☐ J. William Collier, Glendale — September 22, 1978, to November 22, 1978.
- ☐ Norris L. Mortenson, Phoenix — April 24, 1978, to October 24, 1978.
- ☐ Maurice I. Jones, Mesa — April 24, 1978, to April 24, 1979.

The Institute's board of directors has interpreted bylaw Section 7.3.2 to also apply to suspension or revocation of a member's CPA certificate for failing to meet CPE requirements, unless the member is retired or disabled or has a valid CPA certificate from another state.

- ☐ The membership of Wallis L. Walker of Tallahassee, Florida, was suspended on August 24, 1979, following the indefinite suspension of his CPA certificate by the Florida State Board of Accountancy for failure to meet state CPE requirements.

**Search Committee
Appointed**

A special committee has been appointed to conduct a search for a successor to AICPA President Olson (see October 15 Letter). The committee members are Stanley J. Scott (chairman), Wilton Anderson, George Catlett, Rholan Larson and Thomas Pryor. Members wishing to communicate with the committee should write to Mr. Scott addressed to his attention at the AICPA.

**Conference on
Current SEC
Developments Set**

The Institute's committee on SEC regulations will again sponsor a national conference on current SEC developments, which will focus on the problems and needs of practitioners and financial executives dealing with the commission. The seventh national conference will be held at the Capitol Hilton Hotel in Washington, D.C., on January 3-4, 1980. Speakers include SEC Chairman Harold M. Williams; A. Clarence Samson, SEC chief accountant; and FASB chairman Donald J. Kirk.

Registration is \$195. For information, contact the AICPA meetings department.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting and Review Services

An open meeting of the accounting and review services committee will be held November 29 from 9:00 a.m. to 5:00 p.m. and November 30 from 9:00 a.m. to 3:00 p.m. at the Fairmont Hotel in Dallas. The agenda follows:

November 29—a.m.

- ☐ Subsequent Discovery of Facts Existing at Date of Compilation or Review Report. (Discussion of point outline.)

November 29—p.m.

- ☐ Financial Information Included in Prescribed Forms. (Discussion of preliminary draft.)

November 30

- ☐ Reporting on Information Other Than Financial Statements. (Discussion of point outline.)

The next scheduled meeting of the committee is January 16-17, 1980, in Atlanta.

Federal Taxation

An open meeting of the federal taxation executive committee will be held on December 2 and 5 from 1:00 p.m. to 5:00 p.m. each day at the Rancho Las Palmas in Palm Springs, California.

The agenda follows:

December 2

- ☐ Indexation Task Force Report. (Consider draft for exposure.)
- ☐ Social Security Task Force Report. (Consider draft for exposure.)
- ☐ Tax Accounting Subcommittee Report on Current Legislative and Regulatory Matters. (Report of subcommittee.)

December 5

Reports of task forces or subcommittee on the following:

- ☐ Legislative Affairs Subcommittee Report on Recommendations for Code Simplification.
- ☐ Tax Administration Subcommittee Report on Recommendations Regarding Preparer Regulations.
- ☐ Capital Cost Recovery Task Force Report.
- ☐ Fringe Benefits Task Force Report.
- ☐ Agenda for Meeting with IRS Assistant Commissioner (Technical).
- ☐ Tax Education Subcommittee Report.

The next scheduled meeting of the committee is February 21-22, 1980, in New York.

**Changes from these notices will be reported by the meetings telephone information service.
The number is 212/575-5694.**

Washington Briefs

Hearings were held on November 2 by the Senate Banking Committee on a proposal to transfer the functions of the Cost Accounting Standards Board to the General Accounting Office. More information will be forthcoming shortly.

The Internal Revenue Service has doubled the interest rate charged on late tax payments, effective February 1, 1980. The new penalty charge of 12 percent will also be effective for underpayment of estimated taxes and the interest payable by the Treasury on refunds of taxes.

Senators Gaylord Nelson (D-Wis.) and Robert Packwood (R-Ore.) have introduced legislation that would liberalize stock option plans for small businesses. The proposed legislation would permit tax-qualified stock options (which were eliminated in 1976) and would extend the option period to 10 years.

The U.S. Supreme Court has agreed to review a case which will decide whether SEC enforcement actions for antifraud violations must prove scienter — the intent to deceive, manipulate or defraud. The Justice Department and the SEC had sought Supreme Court review of this question which was left undecided following the Court's *Hochfelder* decision in 1976. The case, *Aaron v. SEC*, involves a broker who allegedly violated securities laws.

A major reorganization in the way registration and periodic disclosure documents filed by public companies are reviewed by the SEC was recently announced by commission Chairman Harold M. Williams. Speaking in Washington, the chairman unveiled plans to revamp the division of corporation finance and proposed revisions for filing the 10-K report. The proposal, which would be published for comment by year-end, would identify and delete outdated and costly reporting requirements, he added.

Members of the accounting profession and the business community must actively support and participate in the profession's self-regulatory program, said SEC Commissioner John Evans. In a recent speech, he warned that if there is a lack of commitment to the AICPA's self-regulatory approach, the SEC will not hesitate to exercise its broad authority in promulgating accounting rules and regulations and taking enforcement actions.

The CPA Letter

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The CPA Letter

A Semimonthly News Report Published by the AICPA

Two SASs; First Quality Control Standard Issued

The Institute's auditing standards board recently issued two statements:

- ☐ SAS no. 25, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards*, replaces SAS no. 4, *Quality Control Considerations for a Firm of Independent Auditors*. The statement acknowledges the authority of the AICPA quality control standards committee while making clear that existing standards are being maintained and quality control policies and procedures that a firm establishes may affect the conduct of individual audits.

The statement describes the relationship of auditing standards to quality control standards and provides that a CPA firm should establish quality control procedures to provide it with reasonable assurance of conforming with generally accepted auditing standards. The elements of quality control identified in SAS no. 4 have been incorporated into the first statement on quality control standards (see below).

- ☐ SAS no. 26, *Association With Financial Statements*, defines association as it is used in the fourth reporting standard and identifies the professional standards applicable when an accountant is associated with (1) the financial statements of a public entity or (2) a nonpublic entity's financial statements he has been engaged to examine in conformity with GAAS. The statement provides guidance on report language for reports on several types of unaudited financial statements of public companies presented alone or in comparative form with audited financial statements.

In a related matter, the AICPA has issued its first statement on quality control standards entitled *System of Quality Control for a CPA Firm*. The statement provides that a CPA firm shall have a system of quality control and describes the elements of quality control and other matters essential to the effective implementation of the system.

Copies of the statements will be available soon from the order department.

SEC Rescinds Moratorium on Capitalizing Interest Costs

The Securities and Exchange Commission has rescinded its moratorium on the adoption or extension of capitalization of interest costs effective with the adoption by registrants of the Financial Accounting Standard Board's Statement no. 34, *Capitalization of Interest Cost*. In ASR no. 272 which rescinds the moratorium imposed by ASR no. 163, *Capitalization of Interest by Companies Other Than Public Utilities*, the SEC also amends its disclosure requirements for interest cost under Rule 3-16(r) of Regulation S-X to adopt the disclosures required under the new standard for all periods in which an income statement is presented.

In adopting the moratorium in 1974, the SEC expressed concern that an alternative to the general practice of expensing interest cost as incurred has developed "without careful consideration of such change" by the FASB. The FASB issued FAS no. 34 (see October 29 Letter) which establishes standards for capitalizing interest costs as a part of the historical cost of acquiring an asset under certain circumstances.

FASB Proposes Interpretation on Investment Tax Credit

The Financial Accounting Standards Board recently issued a proposed interpretation, *Application of Percentage Limitations in Recognizing Investment Tax Credits Under FASB Interpretation No. 25*, which elaborates on its Interpretation no. 25, *Accounting for an Unused Investment Tax Credit*. It also clarified the percentage limitations to be used in recognizing investment tax credit in computing income tax expenses for financial reporting purposes.

According to the board, the proposal has been issued in response to inquiries arising from the Tax Reduction Act of 1978 which changed the statutory percentage limitations that determine the extent to which federal income tax otherwise payable is offset by investment tax credits.

Comments are due by January 14, 1980. If adopted, the proposed interpretation would be effective prospectively beginning after December 15, 1979. For further information, contact the FASB, Publications Dept., High Ridge Park, Stamford, Conn. 06905.

Three Interpretations of SSARS No. 1 Issued

The staff of the Institute's accounting and review services committee has prepared the following three interpretations of SSARS no. 1, *Compilation and Review of Financial Statements*:

- ☐ *Omission of Disclosures in Reviewed Financial Statements* states that the special reporting provision applicable to compiled financial statements that omit substantially all required disclosures are not applicable to reviewed financial statements.
- ☐ *Financial Statements Included in SEC Filings* states that when a nonpublic entity is required to file unaudited financial statements with the SEC, an accountant may consider it appropriate to follow the guidance in statements on auditing standards.
- ☐ *Reporting on the Highest Level of Service* clarifies the statement in paragraph 5 of SSARS no. 1 that states when an accountant performs more than one service with respect to the financial statements of an entity he should issue the report that is appropriate for the highest level of service rendered. The interpretation describes the applicability of this statement in varying circumstances.

The texts will be published in the December *Journal of Accountancy*.

Seminar Set on Quality of Life

The Institute's management of an accounting practice committee is sponsoring a quality of life seminar at the Fairmont Hotel in Denver on January 20-22. The seminar, which is specially tailored for CPAs and their spouses, will offer practical suggestions on successfully coping with the various demands of professional practice, family life and personal development.

The conference offers the opportunity to profit from the guidance of consultants trained to deal with stress and to help people resolve conflicting pressures. Practical suggestions in establishing more rewarding goals, handling stressful situations and increasing personal and professional productivity will be included.

Registration is \$225 per person; \$375 per CPA and spouse. For further information, write Nancy Myers, director, member relations, at the AICPA.

ANNUAL REPORT: AUDITING STANDARDS ADVISORY COUNCIL

To the Board of Directors of the American Institute of Certified Public Accountants

This is the first report of the Auditing Standards Advisory Council ("Council") covering its activities from its first meeting in March, 1979 through September, 1979. Because this is the Council's first report to the Board of Directors of the AICPA, the report summarizes the organization of the Council and reports on the meetings and activities of the Council during the above mentioned period.

Organization of the Auditing Standards Advisory Council

The Auditing Standards Advisory Council was established by a resolution of the Council of the AICPA adopted on May 10, 1978. The formation of the Council was responsive to the recommendation of the Commission on Auditors' Responsibilities (Cohen Commission) and the Special Committee of the AICPA to Study the Structure of the Auditing Standards Executive Committee (Oliphant Committee). The Oliphant Committee recommended the formation of an auditing standards advisory council primarily to (a) provide the Auditing Standards Board with input representing the views of a broad spectrum of users, (b) aid the Board in responding to emerging problems on a timely basis by identifying problems which may call for new standards or revisions or interpretations of previous pronouncements, and (c) report publicly on the auditing standards setting process as carried out by the Board.

The functions of the Council, as set forth in the report of the Oliphant Committee are:

- 1 To bring to the attention of the Auditing Standards Board problems calling for new standards or revisions or interpretations of previous pronouncements.
- 2 To review the agenda of the Board and offer guidance on the priorities implicit in the agenda.
- 3 To review proposed pronouncements of the Auditing Standards Board in an advisory capacity, both before and after they have been exposed for public comment.
- 4 To recommend persons to serve on the Auditing Standards Board and on its task forces.
- 5 To report at least annually to the Institute's Board of Directors on the work of the Auditing Standards Board and the extent to which it has fulfilled its charge. This report will be made public.

The Advisory Council is to consist of between twelve and eighteen members. The only qualification for membership on the Advisory Council is a capacity to make a contribution to the work of the Auditing Standards Board. Its members may include, for example, users of financial statements and members of management, academics, financial analysts, government officials, lawyers, bankers, and CPAs, whether engaged in public practice or otherwise.

The initial 14 members of the Council, who were appointed by the Chairman of the Board of Directors of the Institute, based on the recommendations of a selection committee and with the approval of the full Board, are Alan B. Levenson, Chairman, Fulbright & Jaworski, Washington, D.C.; Ivan Bull, McGladrey Hendrickson & Co., Davenport, Iowa; Robert G. Chapman, Zieman Mfg. Co., Whittier, California; Dale Y. Freed, Manufacturers Hanover Trust Co., New York; Emmett Graham, C. W. Amos & Company, Baltimore; Walter G. Kell, University of Michigan, Graduate School of Business, Ann Arbor; Richard A. Nest, Touche Ross & Co., New York; C. Reed Parker, Duff and Phelps, Inc., Chicago; Robert L. Richmond, The Institute of Internal Auditors, Altamonte Springs, Florida; Leonard M. Savoie, Clark Equipment Company, Buchanan, Michigan; Donald L. Scantlebury, U.S. General Accounting Office, Washington, D.C.; Edward J. Silverman, Lester Witte & Company, Chicago; John E. Stoddard, Blythe, Eastman, Dillon & Co., New York; and Michael A. Walker, Mann Judd Landau, New York.

Operations of the Auditing Standards Advisory Council

Members of the Council were appointed in January and February 1979. Through September 1979, the Council held four meetings (March, May, July and September). All of the meetings of the Council were also attended by members of the planning subcommittee of the Auditing Standards Board, Vice-President, Auditing of the AICPA, and selected staff of the AICPA's Auditing Standards Division.

One of the principal actions of the Council during its initial year of operation was to discuss its role in relation to the Auditing Standards Board. In these deliberations, Mr. Philip Defliese, who served as a member of the Oliphant Committee, addressed the Council regarding the rationale of that committee's recommendation for formation of an advisory council to the Auditing Standards Board. Mr. Paul Kolton, Chairman of the Financial Accounting Standards Advisory Council, also addressed the Council on the operations of that body.

The Council established a task force to consider its objectives and to develop a summary of operating policies for the Council. Council members provided written comments on a preliminary draft of operating policies which was also discussed at meetings of the Council. The summary of operating policies was adopted by the Council at its September, 1979 meeting and is available in the Institute library.

The Council also established a task force to review materials distributed to the Auditing Standards Board and its task forces and to recommend the information it believed should be received by the Council. The Council concluded that it should routinely receive the auditing standards division's quarterly reports to the SEC, highlights of meetings of the Auditing Standards Board, task forces, and other committees, correspondence from the auditing standards division to the Board, and at least initially, correspondence to task forces of the Auditing Standards Board. The Council believes that this information, in addition to the participation of members of the Auditing Standards Board and staff of the AICPA Auditing Standards Division at its meetings, should aid Council members in monitoring the projects under consideration by the Auditing Standards Board.

Functions of the Council, as stated in its summary of operating policies, include (1) bringing to the Board's attention problems calling for new standards or revisions or interpretations of previous pronouncements and (2) reviewing the Board's agenda and offering guidance on the priorities implicit in the agenda. To meet these objectives, the Council also receives and reviews the planning chart and agendas of the Auditing Standards Board. In addition, the Council has established a task force to attend the meetings of the Auditing Standards Board Planning Subcommittee to observe the subcommittee's review and evaluation of the Board's agenda. Individual Council members have also attended meetings of the Auditing Standards Board.

The Council is also charged with the responsibility of recommending persons to serve on the Auditing Standards Board and its task forces. Recommendations for members of the Auditing Standards Board were made by members of the Council and were submitted to the Auditing Standards Division in March.

Response to Technical Issues of the Auditing Standards Board

The Council was consulted on the following issues under consideration by the Auditing Standards Board:

Revision of the Auditor's Standard Report

At the request of the Auditing Standards Board, Council members discussed a draft concerning a revised auditor's standard report. The purpose of the discussion was to receive Council members' views on the topic. The Council recommended that a public hearing would be beneficial because it might improve understanding of the auditor's report whether or not it is changed. Further, the Council believed that a hearing is an important part of the Board's due process procedure in view of the public interest in this particular project and the current environment in which the accounting profession is operating. The Auditing Standards Board intends to hold a public hearing on this issue on December 18-19, 1979.

Auditor Involvement With Required Supplemental Information

The Council discussed standards that are being developed by the Auditing Standards Board for auditor involvement with supplemental information required, by pronouncements of the FASB, to be disclosed outside of the financial statements. Council members expressed concern that users may be confused by the proliferation of distinctions in the level of financial disclosures and auditor involvement and may not find them useful or cost justified. However, the Council recognized that the impetus has come from the FASB and it believes that the Auditing Standards Board is attempting to respond in a reasonable manner.

Reporting on Internal Accounting Control

Members of the Auditing Standards Board reviewed with the Council the issues that the Board has identified for the purpose of commenting on the SEC's proposed rules on a management representation on internal accounting control. In its comments on the proposed SEC regulation, the Auditing Standards Board will also focus on the issue of the level of materiality at which an auditor should report on a management representation on internal accounting control. The Council is in general agreement with the thrust of the Board's comments on the SEC's proposal and will continue to monitor the developments in this area. Council members also had an opportunity to discuss this issue with A. Clarence Sampson, Chief Accountant of the SEC, who attended the Council meeting in September.

Conclusions

A significant portion of the initial year of operations of the Council has been concerned with the organization and functions of the Council, familiarization with the functions and procedures of the Auditing Standards Board, and development of an awareness of the technical issues being considered by the Board.

However, the Council believes that an excellent working relationship has been developed between the Council and the Auditing Standards Board. The Board has been very receptive to comments and suggestions made by the Council. Their working procedures and planning methods seem effective and resources allocated to the development of auditing standards seem adequate. In those matters in which the Council has been involved since its inception, the Council believes that the Auditing Standards Board has diligently and effectively fulfilled its responsibilities.

Auditing Standards Advisory Council



Alan B. Levenson, Chairman

October 1, 1979

ARA Starts 1980 Membership Drive

The Accounting Research Association's 1980 membership drive is now underway in its annual effort to raise \$1,000,000 as its share of support for the Financial Accounting Foundation. This AICPA-sponsored organization is the Institute's vehicle through which the membership can contribute financially to the activities of the Financial Accounting Standards Board in its continuing effort to develop and refine accounting standards in the private sector.

In addition to contributing to the broad-based financial support needed by the FASB, ARA members automatically become associate members of the FAF and are kept informed through free copies of FASB publications, based on one of two subscription plans depending on the size of membership contribution.

The dues schedule is determined by the number of partners and professional staff members and ranges from individual memberships of \$35 to \$50,000 for firms with 2,200 professionals or more. A brochure describing the details has been mailed to practicing units not now participating and to non-practicing members.

According to ARA President Bernard Lee, the ever-present danger of federal government control over accounting standards makes it essential that continued help be given to the FASB in its efforts to develop standards that will more fully meet the interests and needs of business and the investing public.

For further information, telephone 212/575-7648 at the Institute.

AICPA Assists Two Doctoral Candidates

Two doctoral candidates will receive grants this year under the Institute's Grants-In-Aid program for assistance with their dissertations. Criteria for selection include relevance of the topic to the principal concerns for public accounting, adequacy and thoroughness of methodology, and academic achievement of the applicant. The following are the recipients and their subjects:

- ☐ Richard L. Rogers, Pennsylvania State University, \$7,200 — "The Perceived Usefulness of Auditing Replacement Cost Data: An Empirical Investigation."
- ☐ John R. Robinson, University of Michigan, \$4,800 — "Taxation and Corporate Combinations."

Additional applications will be considered in the spring of 1980.

NOTICE OF AICPA PUBLIC MEETING

Auditing Standards

An open meeting of the auditing standards board will be held in Atlanta on December 11-13 at the Marriott Hotel starting at 9:00 a.m. each day. The agenda follows:

December 11—a.m.

- ☐ Auditors' Reports. (Report of task force.)
- ☐ Review of Existing Auditing Standards. (Discussion of preliminary draft.)

December 11—p.m.

- ☐ Going Concern. (Discussion of preliminary draft.)

December 12—a.m.

- ☐ Auditor Involvement with Required Supplemental Information. (Consider draft for publication.)

December 12—p.m.

- ☐ Oil and Gas Reserve Data. (Consider draft for publication.)

December 13—a.m.

- ☐ Statistical Sampling. (Report of task force.)

Meetings presently scheduled by the board are January 23-25, 1980, in New York; March 4-6 in New York and April 15-17 in Tampa.

**Changes from this notice will be reported by the meetings telephone information service.
The number is 212/575-5694.**

Washington Briefs

Legislation to raise the deductible contribution limits for individual retirement accounts, to tie contribution limits to the Consumer Price Index, and to allow employees who are covered by qualified plans to make deductible contributions to their plans or to IRAs was introduced recently by Senator Harrison Williams (D-N.J.). The bill (S 1925), entitled "Savings of Income for Retirement Act," would provide that for taxable years beginning in 1980 the IRA contribution limit would be the lesser of 20 percent of compensation or \$2,000 and the Keogh limit would be the lesser of 20 percent of compensation or \$10,000.

The Council on Wage and Price Stability has issued its final anti-inflationary price standards applying for the second program year. Among the topics covered are the two-year price limitation, insufficient product coverage, profit limitation and modified standards. The standards are effective as of October 1, 1979.

The IRS has issued temporary regulations for taxpayers electing to use a special method of accounting for the redemption cost of discount coupons issued in connection with a trade or business. The temporary rules, in T.D. 7653, are effective for taxable years after December 31, 1978.

Proposed legislation which would defer tax on savings and investments has been introduced recently. The bill (S 1964) would allow an individual to establish a special trust account in a bank or savings and loan association to which cash or stock or securities of a domestic corporation could be contributed. No tax deduction would be allowed for contributions, but all capital gains, dividends or interest realized on the account would not be taxed until withdrawn.

SEC action on internal accounting controls may be delayed, according to commission chairman Harold M. Williams. In a recent speech, Williams noted that the vast number of responses to the SEC's proposal had caused the commission to fall behind on the issue. He added that it may be too late in the year to impose new reporting requirements on registrants.

A Correction — Under the SEC's repeal of replacement cost rules in ASR no. 271 (see November 12 Letter), the commission will continue its replacement cost rule in effect for fiscal years ending on or before — not after — December 24, 1980, but will provide an automatic waiver for those electing voluntarily to implement fully the provisions of FAS no. 33 in their 1979 annual reports.

The CPA Letter

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Public Hearing on Contract Accounting Draft to be Held

The Institute's construction contractor guide committee will conduct a public hearing on issues raised in forthcoming exposure drafts of a proposed statement of position, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and an AICPA Audit and Accounting Guide for *Construction Contractors*. The exposure drafts will be distributed by the end of the year. The hearing will be April 22 and, if necessary, April 23 at the Fairfax Hotel in Washington, D.C., starting at 9:30 a.m.

The draft statement provides guidance on the application of generally accepted accounting principles in accounting for the performance of contracts for the construction of facilities, the production of unique goods or the provision of related services to a buyer's specifications. The determination of the point or points at which revenue should be recognized as earned and costs recognized as expenses is a key accounting issue relating to the performance of contracts covered by the draft.

The proposed guide, a revision of the 1965 AICPA industry audit guide *Audits of Construction Contractors*, includes the draft statement of position as an appendix. It contains additional guidance on accounting and reporting by construction contractors and guidance on audits of construction contractors.

Those wishing to make oral presentations or submit written comments should write Thomas W. McRae at the Institute. Written comments and summaries of proposed oral presentations are due by March 25.

SEC Action on Internal Control Delayed for 1979

The Securities and Exchange Commission recently announced that any rule adopted regarding its proposal to require inclusion of a statement of management on internal accounting control (Rel. 34-15772, see May 14 Letter) in annual reports to shareholders and in certain SEC filings would not be effective for periods ending on or before December 31, 1979. The commission added that it has received more than 900 letters of comment on its proposal which was designed to reinforce the accounting requirements of the 1977 Foreign Corrupt Practices Act and which provided for a two-step implementation process.

In a related matter, SEC Commissioner John R. Evans, speaking recently, said that most of the comment letters criticized the proposal for its lack of a materiality standard related to management reports on internal control weakness and for its requirement that an independent accountant examine and report on the statement of management. Commentators argued that auditors' fees in this connection would approximate 5 to 25 percent of current audit fees, thus outweighing the benefits.

Beresford Now Chairman of AcSEC

Dennis R. Beresford has become chairman of the Institute's accounting standards executive committee, succeeding Arthur R. Wyatt. Beresford is a partner of Ernst & Whinney in Cleveland and the firm's director of accounting standards. He also is a member of the Financial Accounting Standards Board's screening committee on emerging problems.

Accountant Supply and Demand Study Issued

The proportion of accounting graduates finding positions in public accounting will rise from 29 percent in 1977-78 to 32 percent in the 1982-83 period.

This is one of the basic conclusions drawn from the recently published ninth annual study, *The Supply of Accounting Graduates and The Demand for Public Accounting Recruits*, made by the Institute. The survey covers a stratified sample of 146 public accounting firms and 590 colleges and universities as to their projected manpower requirements and the supply of accounting graduates.

The following are some of the conclusions in the study:

- ☐ This year's demand by these firms for accounting graduates will total 17,240—up more than 1,200 from last year.
- ☐ Next year's anticipated demand will increase to 19,040 and to 20,550 in 1981-82.
- ☐ The number of graduates with doctoral degrees in accounting is expected to increase by about 50 percent by 1982-83.
- ☐ The supply of and demand for female graduates with accounting degrees is expected to increase substantially over the years covered in the survey.
- ☐ A substantially greater percentage of the accounting graduates with master's degrees than of those with bachelor's degrees in accounting will be hired by public accounting firms.

Copies of the survey are available from the Institute's order department.

International Groups Approve Draft Papers

At its recent meeting, the International Accounting Standards Committee approved for publication two exposure drafts of standards, *Accounting for Retirement Benefits in the Financial Statements of Employers*, and *Reporting Financial Information by Segment*. Also, the IASC approved for publication an issues paper entitled *Disclosures in Financial Statements of Banks*. Pending translation and printing, all the papers should be available in several months.

In another matter, the IASC has elected Hans Burggraaff of the Netherlands as chairman-elect.

In the auditing area, the International Federation of Accountants recently approved two projects of the international auditing practices committee:

- ☐ Authorized the publication of the first international auditing guideline. It deals with the objective and scope of an audit of financial statements and should be available next month from the Institute's order department.
- ☐ Approved for exposure a draft of a guideline on planning an audit. Distribution is scheduled for early February.

Tax Division Surveys Practitioners on Preparer Penalties

The AICPA's federal tax division is conducting a survey to determine the nature and extent of problems CPAs are having with the income tax preparer penalty for the "negligent or intentional disregard of rules and regulations" under the Tax Reform Act of 1976. The results will be published for the information of practitioners and will be used to seek legislative and/or administrative relief where necessary.

Anyone who wishes to participate may obtain a copy of the survey form by writing: Return Preparer Survey, AICPA, 1620 Eye Street, N.W., Washington, D.C. 20006.

Six Auditing Interpretations Issued

The staff of the Institute's auditing standards division has issued six new interpretations which will soon be published in the *Journal of Accountancy*:

- ☐ *The Effect of FASB Statement No. 34 on Consistency* states that a change in accounting principle occurs when an entity adopts the provisions of FASB Statement no. 34, *Capitalization of Interest Cost*. Thus, if the change is material, the auditor should give recognition to the inconsistency in his report.
- ☐ *Communications Between the Auditor and Firm Personnel Responsible for Non-Audit Services* is an interpretation of SAS no. 22, *Planning and Supervision*, and states that when non-audit services are performed the auditor should discuss them with the personnel in his firm who rendered the services. He may also wish to review portions of their work papers to determine how the services may have affected the entity's financial statements or the performance of the audit.

Four interpretations deal with SAS no. 14, *Special Reports*:

- ☐ *Financial Statements Prepared in Accordance with Accounting Practices Specified in an Agreement* states that a basis of accounting specified in an agreement is not a comprehensive basis of accounting as contemplated by SAS no. 14, paragraph 14d. The auditor should modify his report as to the conformity of the special purpose financial statements with GAAP. He may also express an opinion on whether the statements are presented fairly on the basis of accounting specified in the agreement.
- ☐ *Reporting on Special-Purpose Financial Presentations* states that certain special-purpose financial presentations that do not constitute a complete presentation of historical financial position or results of operations of an entity generally should be regarded as financial statements. Thus, the auditor should express an opinion on the fairness of the presentation of the information taken as a whole in conformity with GAAP.
- ☐ *Understanding of Agreed-Upon Procedures* describes the steps the accountant may take when he is not able to discuss the procedures directly with all of the parties who will receive a special report on the results of applying agreed-upon procedures.
- ☐ *Adequacy of Disclosure in Financial Statements Prepared on a Comprehensive Basis of Accounting Other than Generally Accepted Accounting Principles* states that when financial statements prepared on another comprehensive basis of accounting contain items that are the same as, or similar to, those in financial statements prepared in conformity with GAAP, the same degree of informative disclosures is generally appropriate. The auditor should also consider disclosing other material matters.

AICPA Testifies on Carryover Proposal

The controversial carryover basis provisions were the subject of a recent hearing before the House Ways and Means Committee. The carryover basis rule, which has been scheduled to take effect in 1980, would require an heir selling inherited property to pay capital gains tax on any increase in the value of the property from what the benefactor had paid.

Testifying at the hearing, Arthur J. Dixon, chairman of the Institute's federal tax division, said that while the AICPA officially neither supports nor opposes carryover, "we believe that carryover as enacted in 1976 is unworkable." According to Mr. Dixon, "a great many, probably most, of our members are strongly opposed to carryover." He added: "They believe that whatever measure of additional equity carryover would bring is obtained at too high a price in terms of complexity." He concluded by strongly urging action to be taken before year-end. (The Senate voted to repeal carryover in mid-November.)

A copy of Mr. Dixon's testimony is available upon written request from the Institute's office, 1620 Eye Street, N.W., Washington, D.C. 20006 (Tax Document 2).

Washington Briefs

The Internal Revenue Service renewed its plea to Congress for withholding on independent contractors as a way to reduce the number of non-filers, during Joint Economic Committee hearings held recently on the "underground economy." "We should expand withholding to all areas where it can be conveniently applied," said IRS Commissioner Jerome Kurtz. "The alternative is significantly increased audit coverage which is both more costly to the economy as a whole and more intrusive in the affairs of taxpayers," he added.

The House of Representatives recently passed a bill that would restrict the Federal Trade Commission by subjecting its rulings to a Congressional veto. The three-year authorization bill, which (at press time) must still be voted upon by the Senate, passed by a 5-to-1 margin. Previously, legislation that would amend the FTC adjudications and rulemaking while providing a two-year authorization of funds (S 1991) had been passed by the Senate Commerce Committee. S 1991 would also impose new confidentiality provisions on the FTC's handling of line-of-business information and on the disclosure of commercial or financial information.

President Carter has directed executive departments and agencies to ensure that federal regulations do not unnecessarily burden small business. Specific steps include:

- ☐ New rules and regulations should be applied in a flexible manner, recognizing the size and nature of business.
- ☐ Review existing regulatory and reporting requirements and, where possible, tailor them to fit the size and nature of business.
- ☐ Assign responsibility for implementing the order and report the results to the SBA by December 15.

The Senate Finance Committee has approved legislation that would eliminate the tax savings to employers who pay their employees' portion of FICA (social security tax). Presently, the wage base against which social security tax is calculated does not include such payments and the employer is therefore liable for less tax.

Legislation to combine the goals of "sunset" and "sunrise" legislation was recently introduced by Representative Gillis Long (D-La.). HR 5858 would require the House and Senate rules committees jointly to develop and maintain an inventory of all federal programs and tax expenditures, with each program classified according to the committees of jurisdiction.

The CPA Letter

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Board of Directors Actions

The AICPA's board of directors took these actions at its December meeting:

- ☐ Decided to recommend to Council the election of A. A. Sommer, Jr., as a public member of the board to fill the unexpired portion of the term of John C. Sawhill, who resigned to become Deputy Secretary of Energy.
- ☐ Endorsed a memo of understanding between the chairmen of the quality control standards committee and the auditing standards board regarding clearance of pronouncements.
- ☐ Decided that committees whose meetings are open to the public need not move about the country solely because they hold open meetings.
- ☐ Authorized the division of professional ethics to investigate possible violations of the Code or bylaws through task forces which would have the power to issue administrative reprimands.
- ☐ Authorized the state legislation committee to expose for comment revisions to the Model Bill dealing with interstate practice, the 150-hour education requirement, opinions on financial statements, review services, and licensing and registration of foreign accountants.
- ☐ Authorized an increase in the charge to state boards from \$8 to \$10 per CPA examination paper, effective November 1981.
- ☐ Received a report on the breach of security in the November CPA Examination and authorized efforts to seek reimbursement for the resulting added costs.
- ☐ Denied a request that the CPA examination be made available in Spanish in Florida.
- ☐ Authorized the chairman and the president to meet with various educational representatives to resolve differences regarding an AICPA position on proposed AACSB standards for accreditation of accounting programs.

SEC Practice Section Forms Special Investigations Group

As part of its continuing efforts to improve the quality of practice by CPA firms before the Securities and Exchange Commission, the SEC practice section of the Institute's division for firms has formed a special investigations committee. This nine-member group is composed of partners or retired partners of member firms and is charged with the following:

- ☐ Make such investigations as it considers necessary to determine whether facts relating to alleged audit failures indicate any of the following actions: possible need for the member firm involved to take corrective measures; changes in generally accepted auditing standards or quality control standards need to be considered; or sanctions should be imposed on the member firm.
- ☐ Recommend to the executive committee such actions as it deems appropriate.

The chairman of the committee is Rholan E. Larson, managing partner of Minneapolis-based Larson, Allan, Weishair & Co.

SEC practice section member firms will be required to report to this committee any litigation commenced on or after November 1, 1979, that involves clients or former clients who are SEC registrants and that alleges deficiencies in the conduct of any audit or reporting thereon relating to any filing under the federal securities laws.

**FASB Holds
Hearings on
Reporting Earnings;
Proposes New
Statement**

Controversy was again apparent as 25 representatives from accounting, academic, financial analyst and business organizations testified at a two-day public hearing on reporting earnings. The hearing, held December 3-4 in New York, was called by the Financial Accounting Standards Board on the issues raised in the board's discussion memorandum issued last July as part of its project for developing a conceptual framework for financial accounting and reporting.

A key issue focused on at the hearing was the presentation of information about earnings that companies should make to assist users in assessing enterprise performance and estimating future results. Another important area discussed was the usefulness of disclosures of information on "irregular" components of earnings — those items subject to fluctuations that may complicate the interpretation of trends of earnings.

In his opening remarks, FASB Chairman Donald Kirk said that "it is entirely possible" that a statement of financial concepts may emerge from this project, "possibly to be followed by one or more statements of standards." He added that a type of broad guidance that may result from this project could be a possible requirement to distinguish between operating or non-operating earnings or to explain the causes of year-to-year changes in earnings.

In another matter, the FASB has issued a proposed statement of financial accounting standards, *Accounting for Compensated Absences*. The proposal would require employers to accrue the costs of absences (such as vacation, illness or other activities for which the employee is compensated) on a current basis. Comments are due by February 18, 1980. Copies may be obtained from the FASB, Publications Dept., High Ridge Park, Stamford, Conn. 06905.

**FAF's Board of
Trustees Elects
Officers**

Russell E. Palmer, managing partner and chief executive officer of Touche Ross & Company, was recently elected president of the board of trustees of the Financial Accounting Foundation for a one-year term beginning January 1, 1980. He succeeds Alva O. Way, vice chairman of American Express Company.

Also, J. O. Edwards, controller of Exxon Company, U.S.A., was elected vice president of the board. Both Norton M. Bedford, head of the department of accountancy, University of Illinois, and Walter P. Stern, vice chairman, Capital Research Company, were re-elected as secretary and treasurer respectively.

**PCPS Slates
Second National
Conference**

The private companies practice section of the Institute's division for firms has set April 27-29 for its second national PCPS conference. To be held at the Omni International Hotel in Miami, the conference will focus on the latest professional and technical developments relating to the practices of local and regional firms. An optional third day will offer several CPE courses presented by the Florida Institute of CPAs.

Speakers include AICPA Chairman William Gregory, PCPS Chairman Robert Mellin, and Samuel Derieux, chairman of the special committee on small and medium sized firms.

The registration fee is \$95 for PCPS members and prospective members, with an additional charge, yet to be determined, for optional CPE courses on April 30 which are available only to conference participants.

For further information, contact the AICPA meetings department.

**ASB Moves Ahead
on Supplementary
Information...**

At its December 11-13 meeting, the Institute's auditing standards board agreed to ballot on a final statement on auditing standards on *Supplementary Information Required by the Financial Accounting Standards Board*. The statement (SAS no. 27) establishes general standards for the auditor's involvement with all types of supplementary information measured and presented within guidelines prescribed by the FASB. With respect to 1979 year-end examinations, the statement applies specifically to information on the effects of changing prices required by FASB Statement no. 33 and oil and gas reserve quantity information required by FASB Statement no. 25.

The ASB expects that the final statement will be available in mid-January and that it will differ from the exposure draft, *Reporting on Required Supplemental Information*, in that it provides for exception reporting. That is, the auditor would expand his standard report only to call attention to the omission of supplementary information required by the FASB, material departures from FASB guidelines on the measurement or presentation of such information, or the inability to complete the procedures prescribed by the statement. The prescribed procedures are unchanged from those set forth in paragraph 5 of the exposure draft. The board is continuing consideration on the appropriateness of explicit reporting that was proposed in the exposure draft.

The board has approved the issuance of two exposure drafts on supplementary information that augment the general SAS:

- ☐ *Supplementary Information on the Effects of Changing Prices* provides additional guidance on the nature of the auditor's inquiries of management concerning the information on changing prices required by FASB Statement no. 33.
- ☐ *Supplementary Oil and Gas Reserve Quantity Information* specifies additional procedures that should be applied to supplementary oil and gas quantity information and provides guidance on the nature of the auditor's inquiries of management concerning the information.

Comments on both exposure drafts are due by February 29, 1980 and should be directed to the auditing standards division. Copies will be available shortly from the AICPA order department.

**... and Approves
Two Other
Exposure Drafts**

The Institute's auditing standards board has approved the issuance of two exposure drafts of proposed statements of auditing standards:

- ☐ *Reporting on Internal Accounting Control* provides guidance on the procedures to be applied by the independent accountant in connection with engagements to express an opinion on an entity's system of internal accounting control and the form of reporting applicable to such engagements. This would be a voluntary service, not mandated as part of the audit.

The proposal would also provide guidance on reports based solely on a study and evaluation of internal accounting control that was made as part of an audit of the entity's financial statements and reports based on pre-established criteria of regulatory agencies. These reports are to be distributed only to management, specified regulatory agencies, or other specified third parties. Comments are due by April 15, 1980.

- ☐ *Financial Statement Assertions, Related Audit Objectives, and the Design of Substantive Tests* describes the broad categories of financial statement assertions referred to in SAS no. 1, section 330, *Evidential Matter*, and provides guidance in developing audit objectives and designing substantive tests to achieve those objectives. The draft does not modify section 330, but provides additional guidance to help the auditor in selecting procedures in specific circumstances. Comments are due by March 30, 1980.

Comments should be directed to the auditing standards division. Copies of the drafts will be available shortly from the AICPA order department.

FBI Issues Alert on Management Reports

The Financial Executives Institute, in an alert dated December 3, 1979, strongly encourages its members to voluntarily include a report by management in 1979 annual reports. The Institute's special advisory committee on reports by management in its final report (see September 24 Letter) recommends that all companies issuing annual reports include a report by management on the financial statements. Appendix C of the AICPA report presents several examples of management reports.

Conference Focuses on Corporate Governance

"I see no need to involve federal bureaucrats in the governance of private corporations." So said Senator Howard M. Metzenbaum recently, adding that he is as opposed as anyone "to excessive government interference." Some 500 CPAs, bank officers and government officials at the AICPA National Conference on Banking, held December 5-6, heard Metzenbaum's address delivered by a staff aide focusing on the issue of corporate governance.

"There is only one sure way to keep Big Brother out of the boardroom — companies must adopt self-governing measures and standards to correct the abuses that draw Big Brother into it," according to the Metzenbaum text.

The conference focused on recent developments and current issues affecting the banking industry. Topics covered included accounting for securities, reporting the impact of inflation and compliance with the regulations of bank supervisory agencies. Other speakers included John R. Torrell, III, vice chairman, Manufacturers Hanover Trust Corporation, and Philip E. Coldwell, member, Board of Governors of the Federal Reserve System.

National Tax Education Program Set for Summer

The fourth annual AICPA-University of Michigan National Tax Education Program will be held June 30 to August 2, 1980 at the University of Michigan. Divided into four weeks, the program offers comprehensive instruction in various aspects of federal taxation and is geared to particular levels of basic and intermediate tax training.

- ☐ Basic Level I — June 30-July 5 — deals with tax research, basic tax concepts, responsibilities in tax practice, practice before the IRS, and special problems in individual income taxation.
- ☐ Basic Level II — July 6-12 — deals primarily with corporate taxation and income taxation of property transactions.
- ☐ Intermediate Level III — July 20-26 — deals with the closely-held corporation, employer-employee relations, estate and gift taxes, and income taxation of estates and trusts.
- ☐ Intermediate Level IV — July 27-August 2 — deals with partnerships, subchapter C and consolidated tax returns.

The fee is \$575 for one week; \$1,075 for two weeks (a double discount of \$50 for registrations received before March 15 and a regular discount of \$25 for those received before May 1). For further information, contact Pat Jackson at the AICPA (212/575-3861).

1980 AICPA Presidential Campaign Advisors Program Set

The AICPA Presidential Campaign Advisors Program, developed in 1976, will again be sponsored for the 1980 primary and general elections. As a first step, the Institute will hold a training seminar on February 11-12 at the Hyatt Regency Hotel in Washington, D.C. "The program," says T. C. Barreaux, AICPA vice president-government relations, "will provide presidential campaign committees and national political organizations with individuals qualified in federal election law compliance."

The 500 participants will include 150 persons nominated by both the Republican and Democratic National Committees and some 200 Institute volunteers.

For information, contact Joseph Moraglio of the AICPA's Washington office.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

An open meeting of the accounting standards executive committee will be held on January 15-17, 1980 in Miami at the Omni Hotel starting at 9:00 a.m. each day. The agenda follows:

January 15 - a.m.

- ☐ Discounting. (Preliminary discussion of subject.)
- ☐ AcSEC - FASB Procedures. (Discussion.)

January 15 - p.m.

- ☐ Accounting by Leasebrokers. (Consider draft for publication.)
- ☐ Proposed Interpretation of FASB Interpretation no. 25. (Consider letter of comment.)

January 16 - a.m.

- ☐ Hospital-Related Organizations. (Consider draft for publication.)
- ☐ Pension Costs - Plant Closings. (Discussion of preliminary draft.)

January 16 - p.m.

- ☐ Pension Costs - Plant Closings. (Discussion continued.)
- ☐ Subsidiary Capital Transactions. (Discussion of preliminary draft.)
- ☐ Effective Date of SOP 78-10. (Preliminary discussion of subject.)

January 17 - a.m.

- ☐ Personal Financial Statements. (Discussion of preliminary draft.)
- ☐ FASB Screening Committee on Emerging Problems. (Preliminary discussion of subject.)

The next scheduled meeting of the committee is February 25-27 in Stamford, Connecticut.

Auditing Standards

An open meeting of the AICPA's auditing standards board will be held January 23-25, 1980 in the Institute's boardroom in New York. Sessions will start at 9 a.m. The agenda will be reported by the meetings telephone information service.

Professional Ethics

The professional ethics executive committee will hold an open meeting on January 23 in the AICPA New York offices from 9:00 a.m. to 12:00 noon. The agenda follows:

- ☐ Rule 505 - Form of Practice and Name. (Consider amendment and exposure.)
- ☐ Proposed Interpretation 505-2 - Application of Rules of Conduct to Members Who Operate a Separate Business. (Consider draft for exposure.)
- ☐ Proposed Ethics Ruling Under Rule 505 - Side Businesses Which Offer Services of a Type Performed by CPAs. (Consider draft for exposure.)

The next scheduled meeting is April 23, 1980 in Chicago.

Quality Control

An open meeting of the quality control standards committee will be held in New Orleans on January 10, 1980 at the Royal Sonesta Hotel from 8:30 a.m. to 4:30 p.m. The agenda follows:

- ☐ Present Guidance Material Relating to Quality Control Policies and Procedures. (Review reports of task forces on professional development and acceptance and continuance of clients; assigning personnel, hiring and advancement; consultation, supervision and inspection.)
- ☐ Interpretation - Implementation of Inspection in CPA Firms. (Consider draft for exposure.)
- ☐ Interpretation - Implementation of Other Elements. (Preliminary discussion of subject.)

The next scheduled meeting is in New York on April 22-23, 1980.

Note: The next meeting of the accounting and review services committee has been changed from January 16-17, 1980, to February 11-12, 1980, in Atlanta.

Changes from these notices will be reported by the meetings telephone information service.
The number is 212/575-5694.

Washington Briefs

The Federal Trade Commission has issued final rules exempting some small businesses from pre-merger notification filings. These transactions are exempt:

- ☐ At least 15 percent of a company's assets, value at \$15 million or less, are being acquired.
- ☐ 50 percent or more of a company's voting securities, value at \$14 million or less, are being acquired. Also, the acquired company must have both sales and assets of \$25 million or less.

The IRS has issued Form 6251, to be used by taxpayers to compute their alternative minimum tax liability. The alternative minimum tax, which was enacted by the Revenue Act of 1978 and is effective for the first time this year, is generally imposed upon taxpayers with large capital gains or itemized deductions.

The SEC has issued several final rules dealing with shareholder communications, shareholder participation in the corporate electoral process and corporate governance. The amendments are aimed at giving shareholders greater opportunities to exercise their voting rights and obtain information regarding matters on which they vote. For further information, see the November 11 *Federal Register*.

The Small Business Administration recently announced a program to help small businesses cope with inflation. The plan centers on encouraging banks to continue making loans guaranteed by the Administration. Specific items include:

- ☐ Field officers will remind banks that the SBA guarantees up to 90 percent of loans to small businesses and that paperwork requirements have been reduced to encourage such loans.
- ☐ More banks will be certified to make SBA loans.
- ☐ 35 banks have agreed to reduce their prime lending rate for SBA loans.

The SEC has authorized a comprehensive review of all disclosure rules and guidelines. The program, which is to be completed in five to seven years, is aimed at eliminating unnecessary rules and establishing a continuous review process of these requirements. Also, changes to Form 10-K are expected in early 1980.

The SEC recently exempted accountants from "expert's liability," as defined in Section 11 of the 1933 Act, for false and misleading interim financial statements that are unaudited. The action still leaves accountants liable for work performed in audited reports.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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